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World Business Newspaper

WEDNESDAY MAY 22 1996

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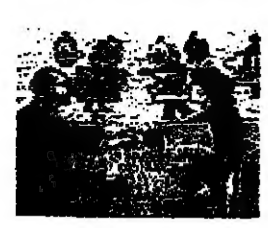

Today's surveys
Corporate finance
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500 die as Tanzania ferry capsizes on Lake Victoria

More than 500 people died when a Tanzanian ferry capsized on Lake Victoria near the western town of Mwanza. Rescue workers found 120 survivors and recovered 25 bodies. Survivors said many passengers were caught underneath the vessel when it it turned over and sank. The ship was due to be taken out of service.

Food price rises to be short-lived: A rise in world agricultural prices is likely to prove short-lived and risks encouraging industrialised countries to relax their efforts to reform farm policies, an Organisation for Economic Co-operation and Development study shows. Page 14; Moscow makes surprise application to join OECD, Page 4

Bomb kills 16 in Delhi: A Kashmiri militant group claimed responsibility for a car bomb which killed at least 16 people in a busy New Delhi market. BJP to offer 'reformist' budget in July, Page 6

Deutsche Telekom attacked: Dietmar Kuhnt, chairman of RWE, Germany's largest energy group, accused Deutsche Telekom, the state telecommunications network, of failing to create conditions for fair competition. Page 15; Lex, Page 14; Australia set-back on Telstra sell-off, Page 6

Mafia 'channelling money to Russia': Senior Italian police officers believe that the Mafia has been channelling large amounts of money to Russia because of a clampdown on its domestic operations. Page 14; Italians exultant, Page 2

Hong Kong business group warns Patten

Hong Kong's General Chamber of Commerce called on governor Chris Patten (left) to accept China's plan to replace the territory's elected legislature. In an open letter to Mr Patten, James Tien, chairman of the chamber, warned that refusal to co-operate with a provisional legislature would have an "adverse effect" on Hong Kong's transfer from British to Chinese sovereignty next year. Mr Patten rejected the call. Page 8

MEPs told to cut costs: The European parliament must cut its spiralling costs after a 50 per cent jump in four years, MEPs were told. The parliament's provisional 1997 budget is 16 per cent above this year's at Ecu934m ($1.16bn). Page 2

Sonat lifts bid for Transocean: A battle between two Texan oil drillers to take over Norway's Transocean Drilling appeared to swing in favour of Sonat Offshore Drilling when it increased its bid to close to US$1.5bn. Page 15

Toyota in China venture: Toyota, Japan's largest carmaker, is expected to announce today that it has won approval for a longstanding plan to manufacture engines in Tianjin, northern China. Page 14; Honda surges, Page 20

US presses for 'open skies' deal with UK: The US government gave its firmest indication that it would block any alliance between British Airways and American Airlines unless the UK agreed to conclude an "open skies" agreement with the US. Page 5

Call for break-up of UK airports group: A committee of British MPs called for BAA, the airports group, to be broken up, saying London's Heathrow, Gatwick and Stansted airports should not be run by one company. Page 9; Lex, Page 21

Ulster talks under threat: The UK government faced a twin threat to all-party talks on Northern Ireland when the Ulster Unionists threatened to withdraw support from the Conservatives and Sinn Féin played down prospects of an IRA ceasefire. Page 9

China seeks end to MFN annual review: Beijing urged Washington to end its "disruptive" annual review of China's Most Favoured Nation trading status. Page 5; Brittan attacks US trade policies, Page 4; Cuba still shy of investment, Page 7

Overseas growth lifts TDK: Strong growth in its principal overseas markets lifted annual pre-tax profits at TDK, the world's largest maker of magnetic tapes, by almost 70 per cent to Y51.9bn ($409m). Page 15

M&S profits rise 7.2%: Reviving consumer sentiment helped Marks and Spencer, the leading British high street retailer, to a 7.2 per cent rise in annual pretax profits to just under £1bn ($1.52bn). Page 15; Lex, Page 14; Pension costs peg M&S advance, Page 22

■ STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5,756.95	(+8.13)
NASDAQ Composite	1,251.88	(3.57)
Europe and Far East		
CAC40	2,129.71	(+9.12)
DAX	2,578.78	(+20.78)
FT-SE 100	3,789.4	(+11.2)
Nikkei	22,091.74	(+112.74)

■ US LUNCHTIME RATES

Federal Funds	5¼%
3-mth Treas Bills: Yld	5.155%
Long Bond	89½
Yield	6.821%

■ OTHER RATES

UK: 3-mo Interbank	6⅛%	(same)
UK: 10 yr Gilt	96⅛	(96⅝)
France: 10 yr OAT	105.75	(105.67)
Germany: 10 yr Bund	98.77	(98.80)
Japan: 10 yr JGB	98.2124	(97.7575)

■ NORTH SEA OIL (Argus)

Brent Dated	$18.82	(18.51)

■ GOLD

New York: Comex	$391.4	(391.3)
London: close	$390.5	(391.0)

■ DOLLAR

New York: lunchtime		
£	1.51205	
DM	1.5415	
FFr	5.2220	
SFr	1.26905	
Y	106.955	
London:		
£	1.5136	(1.5122)
DM	1.5415	(1.5347)
FFr	5.2165	(5.1929)
SFr	1.2661	(1.2628)
Y	107.06	(107.115)

■ STERLING

DM	2.3331	(2.3207)
Tokyo close:	Y 106.95	

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.65	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65
Bulgaria	Lw130.00	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Cyprus	C£1.20	India	Rs75	Nigeria	Naira80	Spain	Pta250
Czech Rp	K380	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Denmark	DKr18	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Syria	S£65.00
Estonia	EEK 22	Jordan	JD1.50	Poland	Z5.50	Tunisia	Din1.750
Finland	FM15.50	Kuwait	Fils650	Portugal (m'land)		Turkey	L80,000
France	FFr11.50	Lebanon	LL3,000		Es240	UAE	Dh12.00

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'Furious' Major launches retaliatory campaign as Brussels remains firm on beef ban

UK vows to disrupt EU business

By Robert Peston in London

Echoes of 'empty chair' policy; Mixed motives behind No vote Page 8
Editorial Comment Page 13; Short-lived rise in farm prices Page 14

The UK yesterday launched an extraordinary campaign to disrupt the European Union's decision-making in fury at lack of progress on lifting the worldwide ban on exports of British beef.

After weeks of hesitation on whether to retaliate, Mr John Major, the prime minister, said the UK could not "continue business as usual within Europe" when faced with a "clear disregard by some of our partners of reason, common sense and Britain's national interest".

The move, agreed by ministers yesterday morning, was prompted by the failure on Monday night of the EU's standing veterinary committee to agree to a partial lifting of the embargo relating to some derivative products.

Mr Major, described by colleagues as furious, told the House of Commons it was not the way he liked to do business in Europe, but he had decided the UK would veto decisions on any issue which required a unanimous vote of EU members.

He accused a handful of EU countries – understood to be Spain, Portugal and the Benelux states – of a "wilful disregard of Britain's interests and in some cases a breach of faith", for reneging on assurances that they would support a partial lifting of the ban.

Reaction across Europe was swift and hostile. Mr Philippe Vasseur, the French farm minister, warned that it was "not in Britain's interest to escalate the conflict" over blocked British beef.

EU officials described Mr Major's move as counter-productive. "Nobody is going to be blackmailed into taking action. Threats are not going to work in this situation," one said.

They dismissed suggestions that it would have a significant effect on EU business in the short term, but conceded that in the longer term a policy of non-co-operation could cause increasing difficulties.

In the UK, Tory MPs were delighted, especially the Eurosceptics who have been campaigning for the government to retaliate since the EU ban was imposed eight weeks ago.

The dwindling number of Tory pro-Europeans were less happy. "My fear is that this will end up as nothing more than a bluff, and we'll find our way down a slippery slope with people clamouring for us to leave the Union," said one.

Ministers were yesterday drawing parallels with General de Gaulle's operation in 1965 of an "empty chair" policy, when he withdrew France from all meetings of what was then called the Common Market, in protest over the Common Agricultural Policy. "We are sending a significant political signal," said Mr Malcolm Rifkind, the foreign secretary.

The government said it would use every EU ministerial meeting to argue the case for lifting the ban, irrespective of the formal agenda. "If we are there to talk about transport, we will talk about beef," said a minister. "If fishing is on the table, we will talk about beef."

Progress will also be brought to a halt in the intergovernmental conference on reforming the EU's institutions. The UK will be present at all IGC meetings but will prevent any decisions from being reached.

However, the British government's greatest threat is that it will hijack the forthcoming European Council meeting of government heads in Florence when movement towards monetary union was supposed to be the main item on the agenda.

"Florence is bound to be dominated by this issue," Mr Major said. A senior official later added that the prime minister would veto the issue by the council of its normal statement or conclusions at the end of the meeting.

Public sector workers strike in support of pay claim ■ Negotiations resume today

Germany slips into 'recession' as GDP falls again

By Peter Norman in Bonn

The German economy contracted for the second successive quarter in the first three months of this year, implying the country was in recession according to the standard US and UK definition.

Without giving figures, the Bonn economics ministry reported yesterday that gross domestic product in the first quarter declined on a price and seasonally adjusted basis "to an extent similar to the previous quarter" and showed hardly any increase compared with the first quarter of last year.

Meanwhile, public sector workers in numerous German cities staged further short "warning strikes" yesterday in support of their union's 4.5 per cent pay claim for 3.2m employees.

The stoppages, which were concentrated in eastern Germany, disrupted municipal transport and refuse disposal services and some hospital and postal services. Employers and the public workers' union are due to resume negotiations today.

The statement from the Bonn economics ministry implied that the economy shrank by about 0.5 per cent in the three months to the end of March, which was the decline reported for the October to December period. The statistics office will produce official first quarter figures next month.

The ministry blamed the downturn on the unusually long and harsh winter that hit the construction industry and other sectors. It said the available economic data, which mostly included March figures, gave hardly any indication of a recovery. However, the report was confident activity would pick up.

It said improved underlying conditions pointed to a gradual strengthening of upwards momentum in the economy. These included stable prices, low interest rates, reduced taxes for people with low incomes, the almost full reversal of last year's effective revaluation of the D-Mark, markedly higher company profits and generally moderate wage settlements.

But it added that there would only be a decisive improvement in the German labour market – where nearly 4m are registered as unemployed – if there was a significant and permanent strengthening of investment. Companies had to be persuaded

Continued on Page 14

About 3,000 members of the OeTV public sector union protested in Düsseldorf in support of a 4.5 per cent pay claim. Their banner vows strikes and solidarity against 'wage cuts and division'. An estimated 100,000 workers across Germany halted transport, rubbish collection and city administration in a continuing drive against Bonn's austerity plans. Picture: Associated Press

Malaysian growth plan upset by failure of steelmaker

By James Kynge in Kuala Lumpur

The Malaysian government yesterday declared the state-owned steelmaker Perwaja Terengganu insolvent in a serious setback for the country's ambitious policy of achieving development through large industrial projects.

In a statement to the country's parliament, Mr Anwar Ibrahim, deputy prime minister and finance minister, said government authorities were examining the practices of the company's former management.

"Suffice for me to state, that the practice and management of the Perwaja group are most disappointing and it is little wonder that Perwaja is experiencing a financial crisis," Mr Anwar said.

The company, which employs 4,000 workers and has long-term debts of M$6bn ($2.43bn) was set up in 1985 as part of prime minister Dr Mahathir Mohamad's long-term strategy for heavy industry.

When the company ran into

Continued on Page 14

EdF group buys big stake in Brazil power company

By Angus Foster in São Paulo

A consortium including Electricité de France and two US groups yesterday bought a significant stake in Light, the Rio de Janeiro power company, in Brazil's biggest privatisation so far.

The successful sale, which followed several delays and court challenges, is a big lift for the sell-off programme of president Fernando Henrique Cardoso.

The foreign interest in Light was also seen as a promising signal for the future privatisations of mining giant Companhia Vale do Rio Doce, expected next year, and Brazil's huge electricity generation and telecoms industries.

Planning minister Mr José Serra described the sale as a great success and said the R$2.22bn ($2.22bn) raised would be used for investments elsewhere in the electricity sector, and to reduce government debt.

"This is the first large-scale entry of foreign investment in a Brazilian privatisation," he said.

Nearly all the shares on offer, equal to 60 per cent of Light's capital, were sold during the privatisation auction, which lasted just 14 minutes.

EdF, along with its US partners Houston Power Industries and AES Corporation, emerged with the biggest shareholding in Light, of 34.7 per cent. Eletrobrás, the federal government's electricity holding company, has retained a 21.6 per cent stake, which is likely to be sold later.

CSN, a Rio de Janeiro steel company and one of Light's biggest customers, bought a 7.25 per cent stake. Some 12.5 per cent of the shares were split between Brazilian pension funds and banks. The 5 per cent block of shares left over will be offered for sale again today. All the shares were acquired at the minimum price of R$390.23 per 1,000 shares.

Light is the second electricity distributor sold under Brazil's privatisation programme. Last year the government sold Escelsa in the state of Espírito Santo.

The next step for the government is to start selling parts of Brazil's generation network, one of the largest in the world. However, progress is likely to be slow since the necessary regulatory framework is still to be agreed.

Mr José Berenguer, managing director of ING Baring, which advised the foreign consortium, said the outcome showed foreign investors' growing interest in "not just the electricity sector, but the high growth potential of the country".

The sale should also help São Paulo state's sell-off plans. The state, whose electricity system is the biggest in Latin America, is splitting up its network and hopes to start privatising later this year.

The auction was accompanied by a heavy police presence but there was none of the violence between police and unions witnessed at some previous sales.

CONTENTS

Clamp down on budget, MEPs told

By Neil Buckley in Strasbourg

The European parliament must cut its spiralling costs after a 50 per cent jump in four years, MEPs were told yesterday.

Construction of expensive new buildings in the parliament's twin centres of Brussels and Strasbourg has sent the parliament's provisional 1997 budget to Ecu934m ($1.16bn) – 16 per cent up on this year's budget and more than half as much again as the 1994 figure of Ecu596m.

The parliament is building a Ecu431m debating chamber and 900 offices in Strasbourg, a stone's throw from an existing complex and the biggest single building project in France. It is also expanding operations in Brussels.

MEPs were warned that a rise in costs could break European Union rules, which limit the amount the parliament can spend to 20 per cent of EU administrative spending. Under the provisional budget the parliament's share would be 21.4 per cent.

MEPs were yesterday considering options to deal with the problem, including knocking Ecu47m off the proposed 1997 budget, and will vote on the issue tomorrow.

Controversy over the new buildings will be stoked again today by a report from Mr Piet Dankert, a Dutch socialist MEP, which "deplores" the fact the decision was taken "without regard" to the EU spending ceiling. This echoes last year's ruling by the Court of Auditors, the EU's spending watchdog, that approval of the project did not follow proper procedures.

The budget problems have emerged at a sensitive time for the parliament, which is pressing the intergovernmental conference on the future shape of the Union for an enhanced role in EU decision-making.

The Strasbourg complex will reinforce the city's drive to continue as parliament's twin home, despite pressure to cut costs by siting it in a single centre.

Plans last year to downgrade Strasbourg's role and shift more parliamentary meetings to Brussels were blocked by France.

Meanwhile, parliament has bought the first two buildings of a giant new complex in Brussels, the Espace Léopold, and will next year take possession of a third, providing offices for MEPs and their staff.

Parliament originally said buying the new buildings outright would cut long-term costs by avoiding rental payments, while paying them off in only 10 years would reduce interest payments.

Both the previous Brussels and Strasbourg premises were leased.

Mr Dankert warned yesterday: "The problem we have is a serious one and it is caused by the explosion of buildings, which makes up a lot of the budget."

Mr James Elles, a British conservative, said it was "highly regrettable" that the parliament had ended up with "two large palaces which taxpayers have to pay for".

Mr Erkki Liikanen, European budget commissioner, warned parliament it needed to set an example as member states cut spending in preparation for monetary union.

KPMG has agreed to help, says Karadzic

Bosnian Serb leader claims 'co-operation' accord with subsidiary of US accountants

By Harriet Martin in Sarajevo and Jim Kelly in London

The big US accounting firm KPMG Peat Marwick has refused to comment on claims by Mr Radovan Karadzic, the Bosnian Serb leader and an indicted war criminal, that a subsidiary company had signed an agreement of "mutual co-operation" with the government of the self-styled Serb "republic" in Bosnia.

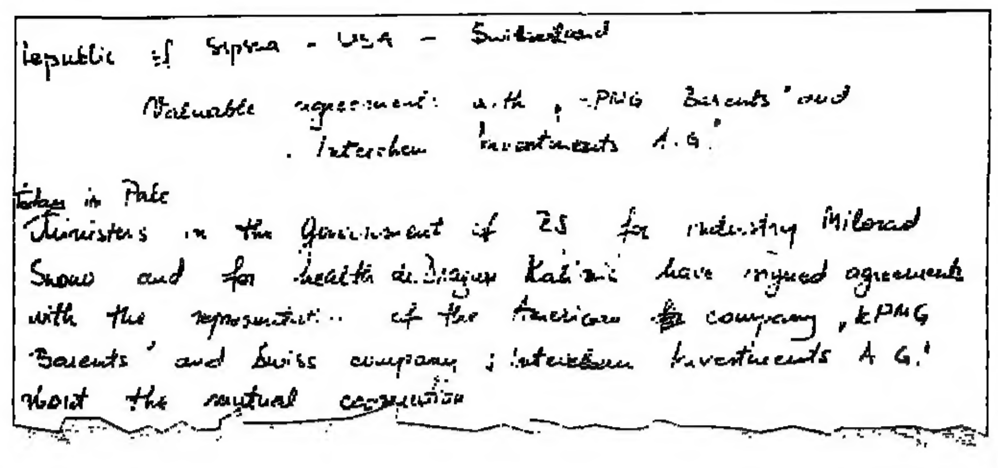
Mr Karadzic, who was indicted twice last year on counts of genocide and crimes against humanity by the war crimes tribunal in The Hague, claimed at a press conference in Pale, the Bosnian Serb capital, that KPMG Barents, a consultancy based in Washington, had agreed to help with the privatisation of the Bosnian Serb economy.

Mr Karadzic said: "These are very important agreements for us, and we believe that our activities on privatisation and restoring of our economy will be stronger because of the assistance of the influential and powerful companies which have experience throughout the world."

A spokesman for KPMG Peat Marwick in the US said: "At this point we are not prepared to comment."

Mr Karadzic's comments are contained in a hand-written press release from the Bosnian Serbs which emphasised that the agreements had been signed "after two days of talks". They "were very important for the stability" of the Serb republic, he said, adding that KPMG Barents "will stimulate us to build new systems of legislation and methodology of privatisation".

The US government has made it clear that it opposes investment in territory administered by the Bosnian Serbs until Mr Karadzic and his military commander, General Ratko Mladic, who has also been indicted, have left public office.


Republic of Srpska – USA – Switzerland
Valuable agreement with 'KPMG Barents' and 'Interchem Investments A.G.'
Talks in Pale
Ministers in the Government of RS for industry Milorad Skoko and for health dr. Dragan Kalinić have signed agreements with the representatives of the American firm company 'KPMG Barents' and Swiss company 'Interchem Investments A.G.' about the mutual co-operation

Since the Dayton agreement was signed last November international mediators and Nato commanders have shunned Mr Karadzic, referring to him and Gen Mladic as "non-people".

The press release also mentioned that a similar agreement had been signed with the private Swiss company Interchem Investments. Mr Bernd Robertz, the company's president, confirmed the report and said he had talked to Mr Karadzic. A provisional agreement had been signed to supply trucks and medical supplies. "That is very concrete – the rest is a kind of concept. They have to do their homework and be accepted. Then we can move.

"He has an educated and flexible team around him. He was not the key point – more the experts – he is more or less always fighting for an understanding that he is doing the best for his people," said Mr Robertz.

"I am not doing business with this guy – it is not military equipment – we are in a very soft business. We are one of the first. We can help the people with items to survive."

The World Bank announced last week that its own work with the Bosnian Serbs was being held up by their refusal to sign a subsidiary agreement. Technically the bank has to sign loans with the Bosnian state government, which would then, in theory, lend them on to the Bosnian Serbs.

The hardline leadership in Pale has refused to sign such an agreement, which would in effect recognise the Sarajevo-based government of Bosnia-Hercegovina, from which the Serbs fought to secede during four years of war.

Italians exultant at capture of Brusca

By Robert Graham in Rome

Italian security officials were jubilant yesterday over the capture on Monday night of Giovanni Brusca, regarded as the leading "military" figure in Cosa Nostra, the Sicilian Mafia's umbrella organisation.

The 36-year-old Brusca was arrested, together with his brother Vincenzo, while eating dinner with their families in a small villa outside the Sicilian town of Agrigento.

Yesterday, black-hooded police with machine guns paraded Brusca in front of a crowd of photographers outside police headquarters in the Sicilian capital Palermo before bundling him into a car.

He has been wanted for a string of murders and for having taken the leading part in the assassination four years ago of the anti-Mafia magistrate Mr Giovanni Falcone, who was killed by a car bomb. According to the claims of *pentiti* (Mafia members who have decided to collaborate with justice), Brusca pressed the timing device that detonated the bomb as Mr Falcone was driving from Palermo airport in a three-car convoy.

Last weekend a special ceremony was held to commemorate the fourth anniversary of Mr Falcone's death. Yesterday, Mr Giorgio Napolitano, Italy's new interior minister, said: "This is the greatest homage possible to the memory of Falcone."

Giovanni Brusca is also credited with being behind the series of bomb attacks in 1993 against prominent public buildings in protest at the capture of Mr Toto Riina, the acknowledged Mafia boss of bosses. Among the targets were the Uffizi Gallery in Florence and the basilica of St John Lateran in Rome.

Police regarded Brusca as the ruthless head of the military operations of the Corleone clan. One *pentito* recently alleged that his 11-year-old son had been strangled by Brusca, and his body dropped in acid.

Mafia experts said that Giovanni Brusca's arrest shows he could no longer be assured *of a safe haven in the Palermo* area, traditional stronghold of the Corleone families. The authorities also emphasised yesterday that he had not been betrayed by information provided by *pentiti*. In the past three years the major Mafia figures have been captured by such tip-offs.

Hooded anti-Mafia agents parade Giovanni Brusca outside police headquarters in Palermo yesterday Reuter

France makes it up with N-test critics

By David Buchan in Paris

France yesterday mended its diplomatic fences with Sweden and Austria which last year led the strong criticism inside the European Union of French nuclear tests.

After talks with President Jacques Chirac, Mr Göran Persson, the Swedish prime minister, said the row over nuclear testing was "behind us" and the way was open for improved co-operation on bilateral and EU issues.

The same sentiment emerged from separate talks which Chancellor Franz Vranitzky of Austria held yesterday with Mr Alain Juppé, France's prime minister.

The impression of a significant French effort at reconciliation was heightened by the fact that yesterday Mr Chirac also met Mrs Mary Robinson, president of Ireland, another neutral EU member which condemned the French tests last year.

In fact, the holding of these three meetings yesterday was largely by chance – Mr Vranitsky was in Paris to preside over the ministerial session of the Organisation for Economic Co-operation and Development and Mrs Robinson was in the French capital to open a cultural event.

However, French leaders and officials made clear their desire to repair the diplomatic damage to France's relations with many of the 10 EU states who voted at the United Nations to condemn French tests last autumn.

Mr Chirac was furious that the vote against France was proportionately greater within the 15-nation EU than within the UN world body.

In pique, he cancelled meetings he or Mr Juppé were to have had with leaders of Sweden, Austria, Finland, Belgium, and Italy. Evidence of a change of tone in Paris came last weekend in a warm invitation to Mr Romano Prodi, Italy's new prime minister, to visit France.

France's discussions with its neutral EU partners yesterday largely steered clear of defence issues. But Mr Persson, anxious to show that Sweden had its own distinctive contribution to make to European security, reminded the president of the Swedish-Finnish proposal to the EU's intergovernmental conference that the Union should play a greater role in international peacekeeping. For his part, Mr Chirac praised the role of Swedish troops in Bosnia.

Mr Persson said Mr Chirac's recent proposal for "a European social model" was in line with his own Social Democrats' desire to "combat unemployment while retaining high ambitions in social policy".

In answer to Mr Chirac's call for maximum membership of the planned economic and monetary union, Mr Persson claimed Sweden was on target to qualify for the single currency, but said the Swedish parliament still reserved the final say on joining monetary union.

Mr Juppé found a closer identity of views with Mr Vranitsky on Emu. The two men agreed on the necessity for a new exchange rate mechanism to regulate fluctuations between those currencies in and out of the currency union.

Lufthansa chief hits out at aid for rival airlines

By Andrew Fisher in Frankfurt

Lufthansa's chairman, Mr Jürgen Weber, yesterday launched a bitter attack on the subsidies granted by some European governments to their national airlines. He warned that the latest cost-cutting and capital injection plan by Alitalia would have to be studied closely.

Most of his criticism was directed at Air France, whose government aid is already the subject of a complaint to the European Commission by the German airline. Brussels has also recently approved a capital injection at the Spanish airline Iberia, after scaling it back and imposing strict conditions.

"We are not exactly pleased when something like this happens, as you can imagine," he said about the Alitalia plans. The Italian carrier last week announced job cuts and cost reductions, as well as a request for a capital increase of L3,000bn ($1.9bn) from Iri, the state holding company which is its majority shareholder, and private investors.

"We will have to study carefully – and we don't know the *conditions – whether this is* state aid *à la* Iberia or Air France, which is then used to sell tickets more cheaply and throw dumping capacity at the market; or state aid used to restructure the company and make it healthy and stable again."

He said the latter was preferable to Lufthansa as a competitor.

Mr Weber said "profit-driven airlines" in Europe were angry that "competition is being distorted by further state subsidies to some European flagship carriers". He mentioned no company names in his speech at Lufthansa's annual press conference. But when asked which airline excited his anger most for by-passing EU subsidy conditions, he said: "It is no secret – it's Air France." He also referred to "southern European airlines" when making his criticism.

Mr Weber has put Lufthansa through a programme of restructuring, cost-cutting and productivity improvements in the past few years, and warned yesterday there was more to come. He pointed out that the Commission had forbidden carriers receiving extra subsidies from using taxpayers' money to undercut prices. But there were indications, he said, that this was exactly what they were doing.

"That is absolutely outrageous because it penalises those airlines that rely on their own efforts," he said. "This state support is a sorry state of *affairs because it takes away* the pressure on them to put their own house in order."

The German government still has a 36 per cent stake in Lufthansa which it plans to sell this year or next. It reduced its holding from 51 per *cent* in 1994 through a *share* sale to the public.

Russian Communist rejection of IMF 'diktat' may endanger loan

By Chrystia Freeland and John Thornhill in Moscow

In a move calculated to win votes ahead of June presidential elections, President Boris Yeltsin yesterday made minor improvements to his country's crippling tax system and promised a broader overhaul in the near future, writes Chrystia Freeland.

A presidential decree, effective immediately, will lower the fines levied on individuals and companies who are late paying their taxes. Compounded daily, the fines could swiftly exceed the original tax bill.

Beginning next year, the presidential decree will also free those companies with no debts to the government from their current obligation to pre-pay taxes, and will establish a rule that taxes cannot be charged more than once a month.

Russia's Communist party "will not tolerate the diktat" of the International Monetary Fund if Mr Gennady Zyuganov, the party's leader, wins next month's presidential election, one of its senior officials said yesterday.

Losing the $10.2bn IMF loan extended this spring could plunge Russian capital markets into turmoil and shatter the country's fragile economic equilibrium.

Mr Anatoly Lukianov, a former member of the Soviet politburo and now a leading figure in Russia's revamped Communist party, said that, if it formed a government, it would seek to maintain good relations with the IMF, but would refuse to bow to the Fund's strict economic demands.

"We will not under any circumstances break relations *with them [the IMF] but we* will also not allow them to so unpardonably command us," Mr Lukianov said.

Mr Michel Camdessus, managing director of the IMF, has said the Fund would work with any Russian administration but would cut off the loan if an incoming Communist government broke the terms agreed this spring. The loan is disbursed in monthly tranches to ensure compliance with tough fiscal and monetary conditions.

Mr Thomas Wolf, head of the IMF's Moscow office, said he had held talks with Mr Yuri Maslyukov, a leading Communist party member and head of the parliamentary budget committee, as a matter of course.

"We have been in contact with officials from the Communist party in order to try to *establish a basis for dialogue* and talk about their ideas regarding economic policy."

Mr Zyuganov's economic programme remains obscure, but he has promised to unveil a detailed plan over the weekend. In a preview of policy paper, Mrs Tatyana Koryagina, one of the co-authors of the programme, yesterday strongly criticised the current government's anti-inflationary policy as self-defeating because it had caused big falls in industrial output and a sharp fall in peoples' real incomes.

By contrast, Mr Zyuganov's economic programme would stimulate growth in industrial output by putting the country's pool of domestic savings – which she estimated at more Rbs100,000bn ($20bn) – to work in the productive economy.

"It is only after we have managed to stop the decline of production in individual sectors of the economy... and then stop the nationwide fall in production that we will manage to stop inflation," she said.

As the Communist coalition struggled to present a coherent economic policy yesterday, Mr Boris Yeltsin, the Russian president, sought to win back democratic supporters who have been disenchanted by the bloody war in Chechnya and his reversion to many of the symbols and practices of the Soviet era.

To commemorate the 75th anniversary of the birth of Mr Andrei Sakharov, the late Nobel prize-winning physicist who is a hero for Russian democrats, Mr Yeltsin laid a wreath on Mr Sakharov's grave and met leading figures from the democratic camp.

Most of Russia's leading democratic politicians have already overcome qualms and backed Mr Yeltsin's bid to prevent the communists from returning to the Kremlin.

But one of Russia's most respected democratic politicians still refuses to join the presidential band-wagon. Mr Sergei Kovalyev, a former dissident who is viewed as the inheritor of Mr Sakharov's *mantle, said a victory for Mr* Yeltsin would be just as bad as and in some ways worse than a triumph for the communists.

"The country has become a strange sort of chimera, it has a communist system of governance under anti-communist slogans," *Mr Kovalyev said.*

OECD application, Page 4

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Georgians balk at paying price of recovery

Recent economic gains may be squandered unless the government can persuade more people to pay taxes, writes Peter Graff in Tbilisi

For Mr Jian-ye Wang, who represents the International Monetary Fund in Georgia, open hostility can be a sign of success. "It means they feel that now, for the first time, they might have to pay something," said Mr Wang of Georgian businessmen who "spoke rather rudely" before storming out of a meeting this month with an IMF official.

The businessmen were angry about the closure of tax loopholes, something the IMF insists is necessary if Georgia's recovery is to continue.

The IMF has been remarkably popular in Georgia for coaxing the government away from hyperinflation at the end of 1994. President Eduard Shevardnadze received a convincing mandate in elections last November, campaigning largely on a promise to keep the reforms on track.

His government launched a stable currency last year, liberalised prices, suppressed inflation and halted one of the steepest collapses of economic output in any former Communist economy. In 1995 Georgia's was one of only two economies in the Commonwealth of Independent States to grow in real terms.

The country's hardest task now, according to the IMF, is maintaining a sustainable fiscal policy. This means persuading the population that taxes are a necessary part of life.

Mr Mohammad Shadman-Valavi, the IMF official who was the target of the Georgian industrialists' anger earlier *this month, told journalists* later: "If there's one thing I've learned in the past week, it's that nobody here likes to pay taxes."

A year ago, Georgia's tax collection rate hovered at a tiny 3 per cent, well short of the 6.7 per cent the IMF expects by the end of this year. In April, Mr Wang said, the problem seems to have worsened.

Georgia's 1996 budget, written with IMF advice, closed most of the country's tax loopholes but the government has simply been unable to collect.

Reluctant though they may be to pay taxes, however, people still complain about the lack of government spending on the country's crumbling *infrastructure and on public* sector payments – workers and pensioners receive only a fraction of the minimum considered necessary for survival and complaints are widespread about police and official corruption.

If the situation does not improve soon, one more misfortune may be added. The IMF has warned that if Georgia does not collect its taxes, it could fail its next IMF review for the first time since reforms began in 1994, cutting off the very loans that have made the reforms possible.

Georgia has performed well under virtually all the IMF's other criteria. Inflation is falling more quickly than the Fund expected. *Growth is set* to meet or exceed targets. Privatisation is on track. The final freeing of bread prices has been pushed forward. Even a commercial bank sector is emerging.

Georgia is also starting to arouse the interest of investors. A £250m ($378m) oil pipeline deal was signed with a consortium of western multinationals in March. In return for providing its own financing, the consortium will pay Georgia's treasury only token transit fees. But the government is making the most of the high-profile project as a sign that Georgia is a place where it is possible to do business.

Small outside investors, how*ever, have found conditions* tough. Not only do Georgians evade taxes, they also do not pay their electricity bills. The state power monopoly, unable to collect debts, has not been able to buy fuel. As a result, the lights are off most of the time, except in the warm months when melting snow in the Caucasus mountains provides free hydroelectric power.

Mr Albert Warner, general director of Chalice Wines, a US joint venture which owns a Georgian winery, watched his bottling plant lie idle from November to March for lack of electricity.

Still, he says his company has no plans to turn back. "We are vertically integrating our operations. We want to control the whole process, and we are looking into purchasing the fields – the vineyards themselves. We are here for the long *term.*"

EUROPEAN NEWS DIGEST

Europe risking 'anaemic growth'

Europe is facing the "risk of anaemic growth", with consumer confidence remaining low and business confidence waning in several countries. Mr Alexandre Lamfalussy, president of the European Monetary Institute, said in a speech to be delivered in Vienna last night.

"The slowing down of growth in the European Union is, with a few rare exceptions, an undeniable fact," he said.

He added that some countries objected to joining a new exchange rate system after the introduction of a single currency. "A minority thinks such an arrangement would not assist in the pursuit of stability-oriented domestic policies in all cases, so that it would not necessarily contribute to exchange rate stability," he said. These countries "do not object to others participating in ERM2, but want to retain their freedom not to do so". *AFX, Frankfurt*

Oslo talks on engineering strike

Norway's chief mediator summoned employers and union representatives for a new round of talks yesterday in an attempt to settle a strike over pay by 37,000 Norwegian engineering workers.

The strike has crippled much of the country's engineering industry, including shipyards, and caused a shutdown across the border in Sweden at Saab's Soedertaelje plant as the company ran out of key components.

The state mediator, Mr Reidar Webster, met both sides in the dispute and ordered new talks to resume last night. Both sides are obliged by law to appear when summoned by the state mediator.

"I think it will be very difficult, and I think we'll be working all night," Mr Webster said. "But if I didn't have any hope at all, I would not have summoned them." *Reuter, Oslo*

Slovenia set to sign EU accord

Slovenia is expected to sign a long-delayed association accord with the EU next month, opening up trade and setting up regular co-operation talks on areas ranging from foreign affairs and crime-fighting to tourism and education, Mr Jacques Santer, European Commission president, said yesterday.

Mr Santer said Slovenia's prime minister, Mr Janez Drnovsek, had assured him Slovenia would endorse a compromise with Italy to end a dispute over the property rights of ethnic Italians who fled the country when the communists took over at the end of the second world war.

That dispute has soured EU relations with Slovenia since the republic broke away from Yugoslavia in 1991.

Under a Spanish-brokered compromise, the Slovene parliament has agreed to open the country's property market to EU nationals within four years of signing the association accord. *AP, Brussels*

Zagreb restores Slavonia phones

The only remaining rebel Serb-held area of Croatia, eastern Slavonia, was linked to the rest of the country yesterday when phone lines were reconnected for the first time since 1991.

The move comes as part of a UN-monitored reintegration of the rebel region after other Serb-held areas of Croatia, constituting a third of the country, were recaptured by the Croatian government.

The Serb authorities in eastern Slavonia gave up fighting for their own autonomy after President Slobodan Milosevic in neighbouring Serbia made it clear he would not defend them.

Yesterday also marked the start of of a 30-day demilitarisation programme overseen by the UN administration. Mr Douglas Coffman, UN spokesman said: "This is yet another important step in bringing peace and security to the people of the region, towards re-establishment of normal life."

For five years it has been impossible to reach eastern Slavonia by phone from Croatia. Yesterday an initial 30 phone lines were restored.

A postal system has already been established. Two weeks ago the main road linking Zagreb and the Yugoslav capital, Belgrade, which passes through eastern Slavonia, was reopened. *Harriet Martin, Sarajevo*

EU statement backs Ukraine

The European Union issued a strong statement of support for the Ukraine yesterday, saying the independence and territorial integrity of Russia's neighbour was fundamental for Europe's security.

The EU's declaration also expressed backing for the former Soviet republic's economic liberalisation drive and welcomed progress on nuclear arms control and the pledge by Kiev to shut the Chernobyl nuclear power plant by 2000.

It was issued in Rome after the Ukrainian foreign minister, Mr Hennady Udovenko, met his Italian counterpart, Mr Lamberto Dini, and colleagues from Spain and Ireland who comprise the EU's "troika" of current, past and future presidencies.

Ukraine, which gained independence in 1991, has been at odds with its pro-Russian autonomous region of Crimea, where separatist politicians are seeking closer ties with Moscow. But in recent months, tensions appear to have subsided.

At the same time, differences between Kiev and Moscow over dividing the Black Sea fleet and control of its main base and headquarters in the Crimean port of Sevastopol have prevented signature of a friendship treaty between the neighbours. *Reuter, Rome*

Russia forecasts better harvest

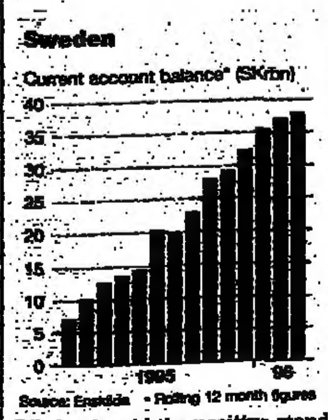
The Russian grain harvest is expected to rise this year and rebound from the worst harvest in 30 years, a Russian news agency reported yesterday.

The Ministry of Agriculture and Food forecast that 75m-78m tonnes of grain would be harvested this year, the Itar-Tass new agency reported.

Last year's harvest was about 67m tonnes, the worst since 1965. Shortages of fuel and spare parts were still causing difficulties for farmers, but the spring sowing was going well, ministry officials said. *AP, Moscow*

ECONOMIC WATCH

Sweden again trims repo rate



* Rolling 12 month figures

Sweden's central bank, the Riksbank, yesterday trimmed its main repurchase lending rate from 6.70 per cent to 6.50 per cent. The repo rate cut – the 11th this year – was widely expected. Figures published by the Riksbank showed the country's current account surplus rose to SKr4.6bn ($683.5m) in March, an increase from SKr3.8bn the year before. The surplus for the first three months was SKr15bn – an increase of SKr5bn from 1995 – bringing the annualised current account surplus for the past 12 months to SKr38bn. The Riksbank said the positive standings reflected an increased trade balance and high transfers from the European Union in January and February. Return on capital, however, had fallen further this year. The Central Statistical Bureau reported a 0.5 per cent increase in industrial orders in March from February. The domestic market was up 2.4 per cent, but the export sector contracted 1.2 per cent. Orders for the year to March were down 11.4 per cent, partly because there were two fewer working days in March 1996. *Greg McIvor, Stockholm*

The west's diplomats in Tirana get wake-up calls

Albania's election is turning nasty, writes **Kevin Done**, as the ruling Democratic party fears a comeback by ex-communists

The sleep of western diplomats in Tirana was disturbed in the early hours of Monday by frantic phone calls from officials of Albania's opposition Socialist party – the reformed successor of Stalinist dictator Enver Hoxha's Party of Labour.

They claimed that some of their supporters had been arrested and beaten by police after an election meeting in the capital.

The Albanian election campaign is turning nasty.

The ruling Democratic party has gone to great lengths to ensure victory, but the edgy, nervous mood of the final days of the campaign suggests that the Socialists may have closed much of the gap.

Reports of harassment and intimidation are growing and international monitors are expressing fears for the conduct of Sunday's poll.

"We are collecting facts and we have seen some irregularities, but it could just be bad administration," says Mr Wolfgang Stoppel, a German judge and one of the 50 election monitors observing the poll for the Organisation for Security and Co-operation in Europe.

"There are many mistakes in voter lists. Some names appear twice, some are missing," said Mr Stoppel.

Mr Ilir Meta, a deputy chairman of the Socialists, complains: "We have had many problems, some of our candidates have been arrested for a few hours. sometimes the police have stopped our leaders from holding election meetings."

At the weekend the main road to Shkodra, a Democratic party stronghold in the north, was blocked by a couple of hundred demonstrators with shouts of "Socialists out of Shkodra". The Socialist party had been forced to cancel the rally, said Mr Meta, when the police said they could not ensure the safety of those attending.

Socialist leaders say their party has reformed. Marx may be mentioned in the manifesto, but the programme is social democratic, they insist

Leaders of the Democratic party accept that there is little chance of repeating their landslide victory of four years ago, when, amid the chaos that followed the collapse of communism, they won 62 per cent of the vote and 92 of the 140 seats in the Albanian parliament.

"I think we will get 42 to 45 per cent of the vote and the Socialists 25 per cent," says prime minister Alexander Meksi, a former archaeologist. "There is now tension in the last week. The Socialists are protesting and creating problems.

"There are two alternatives, ourselves and the Socialist party, which wants to break up the reforms and create a mixed state economy. We want to be part of western Europe, they want to be part of former Socialist east Europe."

Socialist leaders insist that the party has reformed. Marx may be mentioned in the introduction to the manifesto, but the programme is social democratic, insists Mr Meta. It is pro-membership of the European Union and of Nato. "We will continue privatisation, of course, but based on the law of parliament, not in the government's way, which is corrupt, untransparent and ineffective."

Mr Tritan Shehu, chairman of the Democratic party, conceded that the ex-Communists were strong at local level but claimed they used the old security police structure.

"They are very organised, very disciplined, very militant. They wanted to get a big branch of the security police elected to parliament, which would have been a big problem for the stability of our country."

The Democratic party met that challenge by passing its "genocide law" late last year, blocking scores of opposition candidates from standing for election, either on the grounds that they were senior former Communist officials or that the secret files of the old regime showed them to be collaborators of the Sigurimi secret police.

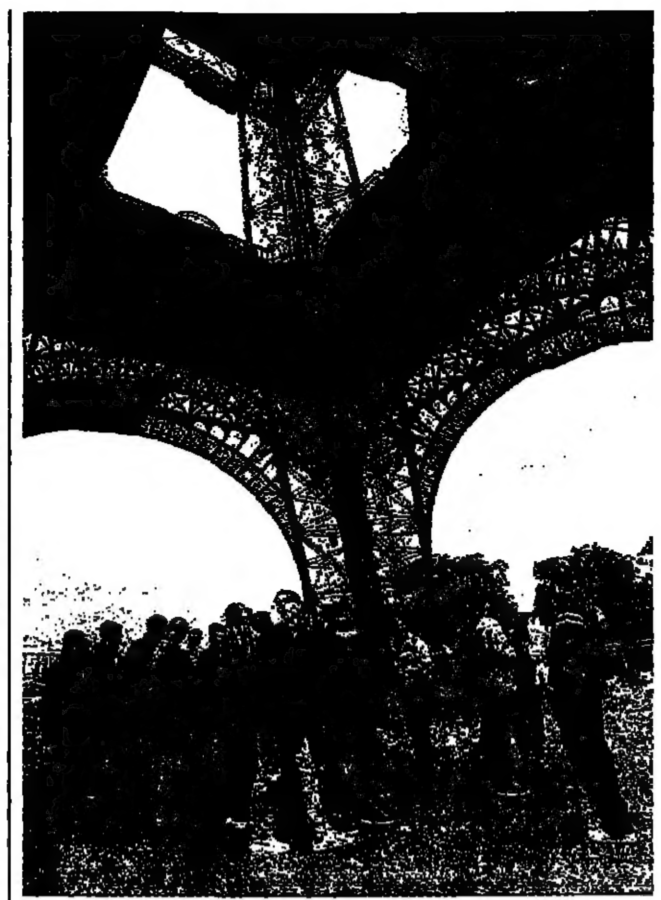
The leader of the Socialists, Mr Fatos Nano, briefly prime minister under the former Communist regime, is still in jail convicted of embezzlement, despite a campaign by international human rights groups for his release.

The Democratic party hopes to gain from changes in the electoral law, which clearly favours the big parties. Some 115 of the 140 MPs will be elected by majority votes in individual constituencies. There will also be a run-off round of the two leading candidates in constituencies where neither achieves a 50 per cent majority on Sunday.

Parties must cross a 4 per cent threshold of the national vote before they can win any of the 25 seats to be elected by proportional representation.

With such measures, President Berisha's Democratic party believes it can win over the next two Sundays and remain, with the Czech Republic, one of the few places in central and east Europe where voters have not chosen government by former communists.

Mr Gramoz Pashko, a founder of the Democratic party alongside President Berisha but who was later expelled and now leads the small opposition Democratic Alliance, insists the ruling party will lose "because of its inability to introduce justice and proper democracy, and to fight corruption".



The Eiffel tower was closed to visitors yesterday because of a dispute over staff parking rights. Tourists hoping to be whisked to the top of the 312-metre high structure, with its peerless views over central Paris, were instead left at ground level, non-plussed and in some cases angry, writes **David Owen in Paris**

The dispute - the ltest indication of the continued fragility of French labour relations - is over the refusal of the city authorities to allow tower staff to park their cars in Champ de Mars, the park abutting the tower.

The tower's management, which has proposed renting 30 parking spaces for employees a few hundred yards away near the Ecole Militaire, said initially it would not negotiate with the workforce unless the tower was opened to the public. Another car park under the tower has been closed because of fears of terrorism.

There was no immediate indication of when the tower would reopen to the public, although the restaurants and souvenir stands are continuing to operate. The tower, which currently contributes about FFr20m ($3.9m) a year in profits to the city of Paris, takes about FFr600,000 a day in entrance fees.

Life jail sentences urged for Albanian officials

An Albanian prosecutor yesterday called for life imprisonment for four senior ex-communist officials, including a former president, charged with political persecution while in power, Reuter reports from Tirana.

The prosecutor, Mr Arjan Sulstafa, charged a total of five officials with crimes against humanity for ordering the internal exile of dissidents, demanding life terms for four of them.

The most prominent defendant was Mr Haxhi Lleshi, Albania's president from 1953 to 1982 under Mr Enver Hoxha, the late communist dictator. He was also charged under the controversial new genocide law for allegedly conspiring to eradicate an entire section of society – the dissidents.

"We are not charging them for overstepping their authority but for sending many people to internal exile for political reasons," Mr Sulstafa told a Tirana court.

Mr Sulstafa called for life jail sentences for Mr Lleshi, Mr Manush Myftiu, former deputy prime minister, Mr Aranit Cela, supreme court chairman, and Mr Zylyftar Ramizi, the deputy interior minister who also headed the notorious Sigurimi secret police.

The prosecutor demanded a 25-year sentence for the fifth defendant, Mr Rrapi Mino, former prosecutor-general.

Under Albanian law, the former officials could receive sentences ranging from 15 years to the death penalty if convicted.

Mr Sulstafa said their orders to exile dissidents had violated international rights conventions which Albania had signed, as well as the constitution valid at the time.

Around 100,000 Albanians were believed to have been forced into internal exile to remote Albanian villages during 45 years of communist rule on charges of expressing opinions against the Stalinist government or trying to escape from the isolated Balkan state.

The first sentence based on the genocide law was handed down by a court in the northern city of Shkodra, when it sentenced an army officer to life imprisonment *in absentia* on charges of killing a man and wounding another while they were trying to flee Albania in 1990. The officer disappeared shortly after the incident.

Two trials against nine other former senior communist officials are also in progress.

Saddam reckons policy reversal may bolster his chance of survival □ Hopes of reducing Iraqi people's hardship

Iraq food-for-oil deal offers 'something for everyone'

By Roula Khalaf and Robert Corzine

The food-for-oil deal agreed between Iraq and the United Nations on Monday has drawn positive reactions from all sides because each party sees in it a way to further its own objectives.

"There is something for everyone in this deal," Mr Ghassan Atiyyah, a former Iraqi diplomat and editor of the Iraqi File, said yesterday. While providing a boost to President Saddam Hussein's regime in the short term, the accord also helps to relieve pressure on the US and Britain to agree to a full lifting of sanctions, imposed after Iraq's invasion of Kuwait in 1990, in the near future.

Mr Saddam appears to have calculated that, at a time of mounting domestic suffering and little prospect of a full lifting of sanctions, abandoning his objections to direct UN involvement in Iraq was a prerequisite to bolstering his short-term chances of survival.

His decision is remarkable, given the lengths to which Baghdad has gone in recent years to ensure the economic effects of sanctions did not undermine the normal processes and powers of a sovereign state, even if in so doing it inflicted great hardship and suffering on the Iraqi people.

The government, for example, has required imports of drugs and other medical aid to go through lengthy bureaucratic checks to verify their origin and safety, even as thousands of Iraqis died as a result of hospitals running out of basic medical supplies. Last year international aid workers reported that medical supplies could sit in warehouses for six months or more while the inspections, which had become symbols of Iraq's sovereign powers, were carried out.

Acceptance of the UN plan represents a dramatic public reversal of Mr Saddam's earlier stand, but anything that eases the harsh day-to-day plight of average Iraqis will be widely welcomed. Furthermore, the influx of additional food and medicines could allow him to use the $100m or so he now spends on such uses to greater political effect, for arms purchases or by targeting government funds to key groups of supporters or regions.

The Iraqi population gains something in this deal, but according to Mr Walid Khadduri, executive editor of the Middle East Economic Survey, the economic effects will be limited. He calculates Iraq will end up with less than 50 per cent of the $2bn raised from oil sales in six months, a fraction of the pre-Gulf war annual oil income of $16bn.

About 30 per cent of the revenue from oil sales is deducted for a Gulf war reparations funds, another 15 per cent is earmarked for Kurdish regions no longer under Baghdad's control and 5 per cent meets the costs of the UN operation charged with disarming Iraq. Under the accord, Baghdad will also bear the $2 per barrel cost of producing the oil and transporting it within Iraq.

A recent report by the US-based Centre for Economic and Social Rights following a visit to Iraq by a team of doctors and other experts describes desperate conditions of deprivation and malnutrition.

The report estimates that real gross domestic product has fallen 75 per cent since the Gulf war and the proportion of the Iraqi population living in extreme poverty has risen from 5 per cent in 1988 to 20 per cent in 1993. The report says the oil-for-food deal will be a "great relief" but cannot act as a solution to these problems and that having the UN organise purchases of food will be costly and inefficient.

Some analysts are concerned about whether a programme with limited aims could make any lasting impression on public health when key infrastructure, such as the water and sanitation systems, are in need of extensive repairs.

The limited economic benefits of the deal and the rising expectations of the population could eventually translate into increased pressure on Mr Saddam, something which no doubt enters into the calculations of the US and Britain - the most virulent opponents to an easing of sanctions on Baghdad.

The US and Britain calculate that addressing the sufferings of the Iraqi people under a separate and limited deal reduces the moral pressure for a full lifting of sanctions.

US and British diplomats have argued throughout the talks that whatever plan did emerge, it could not be seen to enhance Mr Saddam's power, at least directly. Monday's agreement, which includes various amendments the US and Britain insisted on, has been carefully constructed so that no funds pass through the president's hands.

The UN will approve every sale of oil and every import contract. UN agents enjoying diplomatic immunity will control distribution of food and medicine throughout Iraq and the proceeds from oil sales will be controlled by a bank chosen by the world body.

Some analysts, however, see further opportunities for Mr Saddam arising from even such a limited oil sales programme. They argue that once a successful oil-for-food deal is under way, it will be much easier for Iraq to lobby for its expansion. This week's agreement has a provision to increase aid flows if the initial amounts prove inadequate.

Under those conditions, Baghdad could also offer a more compelling case for additional funds to be earmarked for the rehabilitation of parts of its oil industry to ensure that sufficient supplies are available to fund the humanitarian effort, an argument which it had to drop in order to secure agreement on this week's deal.

To some that might seem like the lifting of sanctions through the back door. The US and Britain, however, are likely to make sure that even an expanded oil-for-food programme retains the multiple safeguards of Monday's deal, and thus deprive Mr Saddam of any chance of cheating on the level of oil exports or an opportunity to gain direct control of additional cash, the one commodity he needs to expand his power base.

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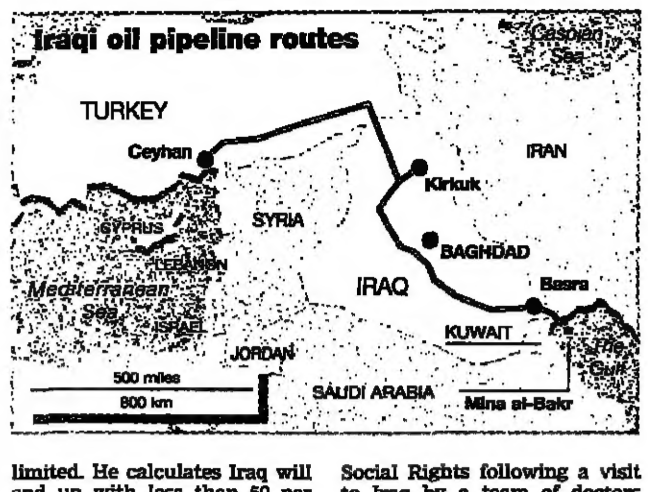



Jordanian money changers wave millions of Iraqi dinars in Amman yesterday after Baghdad's oil exports accord with the UN Reuter

Moscow makes surprise application to join OECD

By Graham Bowley and Gillian Tett in Paris

OCDE OECD

Russia yesterday surprised leading industrialised nations by asking to join the Organisation for Economic Co-operation and Development. If accepted, the request – made at the meeting of OECD ministers in Paris – would be the latest step in Russia's integration into the world economy. Acceptance would also be a signal of the west's support for the reforms launched by Russia's president Boris Yeltsin ahead of the country's presidential elections next month.

Mr Franz Vranitzky, the Austrian federal chancellor and chairman of the meeting, said the application had been given a positive reception by ministers. He said Mr Yevgeni Yasin, Russian minister for the economy, would meet ministers today to discuss further the application – which would include membership of the OECD's Nuclear Energy Agency and the International Energy Agency.

Russia is a very long way from meeting the OECD membership criteria. In a letter to the group, Moscow argued that it should join because it was a democratic country, had implemented market reforms and had further economic reforms planned. One senior western economist said Russia had strong backers within the OECD and that there was a high probability that Russia would be put on to an accelerated track towards OECD membership.

However, the application leaves the organisation in a delicate position. It could fuel splits among its members – not least because although the OECD has sometimes taken a long time to process applications for membership, it has never actually refused one.

Some diplomats fear that refusing Russia membership would represent a considerable snub. They think that the OECD will come under pressure to relax these criteria slightly.

Mr Vranitzky said that Russia was not "just knocking at the door of the OECD but had set out clearly its plans to meet the criteria for membership. "They have indicated that they wish to comply with what the OECD is and what it stands for," he said. But he warned that Russia would have to stay true to its commitments after the presidential elections.

However, Mr Donald Johnston, the former Canadian finance minister who takes over as the new secretary-general next month, may take a cautious view of admitting Russian quickly.

He believes that countries should only join if they can both meet the membership criteria, and show that their policies are "sustainable". Without this, he fears that the values of the group will be threatened.

"This is an issue because once a country is a member the problem is that there is no mechanism by which it can be expelled – there has to be real evidence of sustainability," he recently said.

And any attempt to lower the standards for Russia will irritate other applicants. The group has insisted in its recent negotiations with East European countries such as Hungary that the countries should strictly adhere to the OECD's criteria before joining the group. These stipulate that a country should have liberal investment, trade and business regimes and a real commitment to creating a stable market economy.

Mr Lawrence Summers, the US deputy Treasury secretary, said next month's G7 summit in Lyons would be marked by countries taking "a decisive step to address the problems of the highly indebted poor countries" of the world.

"We believe the time is right to take substantial action," he said at the OECD meeting in Paris.

Israel's Arabs see poll hopes boosted

By Julien Ozanne in Jerusalem

Electoral prospects of Israel's Arab parties were considerably boosted yesterday as Mr Ahmed Tibi, leader of a new Arab political party, withdrew from the electoral race eight days before the May 29 polls.

Mr Tibi's withdrawal leaves only two serious parties competing for the votes of 520,000 registered Israeli Arab voters in the race for the Knesset (parliament) and considerably reduces the chances of Arab votes being split and wasted in Israel's proportional representation system. The move should help to increase Israeli Arab representation in the next Knesset, giving them greater political power to press for statehood for their Palestinian cousins in the West Bank and Gaza and full and equal citizenship for the 1m Arab citizens of Israel.

Mr Tibi, a long-time adviser to Palestinian President Yassir Arafat, also joined other Israeli Arab leaders calling on their community to back Israeli prime minister Shimon Peres in the separate two-man race for the premiership.

Mr Tibi's endorsement of Mr Peres could help in a tough election where the Arab vote, 13 per cent of the 3.9m electorate, might secure the Labour leader's victory over rightwing opposition leader Mr Benjamin Netanyahu.

Opinion polls published yesterday showed 65 per cent of Israeli Arabs, fearful that a rightwing government would destroy the Israeli-Palestinian peace process, intend to vote for Mr Peres as prime minister compared with only 2.5 per cent for Mr Netanyahu.

Mr Tibi said he had withdrawn from the race because he feared the Arab Movement for Change, his newly formed party, would not garner enough votes to win a Knesset seat and would drain votes from the more established Arab parties. Under Israel's election law a political party must win at least 1.5 per cent of the votes cast to qualify for Knesset representation.

"Out of historic and moral responsibility and out of national and civil responsibility we have decided not to take any step which could be considered in any way as taking even the slightest chance [of dividing the Arab vote]," Mr Tibi said.

Mr Tibi's withdrawal leaves two Arab parties in the Knesset race – Hadash, a communist party, and the United Arab List, a coalition between the Arab Democratic party and the Islamic movement, which traditionally boycotted Israeli elections. Together the two parties, which have broadly similar political views, now have five seats in the 120-member Knesset. Recent Israeli opinion polls suggest the Arab parties are unlikely to expand their representation beyond six seats but Arab experts say the polls are inaccurate and predict Arab parties could emerge with eight or nine seats, making them potential king-makers of a future coalition.

Brittan in fierce attack on US trade policies

By Guy de Jonquières in Paris

Sir Leon Brittan, Europe's trade commissioner, yesterday launched a strong attack on US trade policy, suggesting that its recent conduct had set back global economic liberalisation and jeopardised the multilateral trade system.

Sir Leon was particularly critical of US legislation which provides for legal actions against foreign companies with investments in Cuba. He called the Helms-Burton act "extra-territorial and expropriatory" and said it breached US international obligations.

"Politically, it is counter-productive to attack one's friends, when the object is others," he told a ministerial meeting of the Organisation for Economic Co-operation and Development in Paris. He also criticised proposed US trade measures against Iran and Libya.

Sir Leon said the Helms-Burton act was one of a series of recent "checks and setbacks" to international trade policy. These included the near-failure of last year's World Trade Organisation talks on financial services, the inconclusive outcome last month of WTO telecommunications negotiations and lack of progress in efforts to liberalise maritime trade.

Bilateral trade initiatives were also affected, notably negotiations between the EU and US on an agreement to lower transatlantic barriers to trade in information technology products, which Sir Leon said were "stuck".

Though Sir Leon did not name the US, EU officials said his remarks were directed at Washington, which he held largely responsible for recent problems. The officials also claimed that all OECD members except the US wanted the meeting's final communique to condemn abusive unilateral trade tactics.

Mr Stuart Eizenstat, US under-secretary of commerce said trade measures against "rogue" states such as Cuba, Iran and Libya did not violate multilateral trade rules. But Sir Leon said that defence was "no argument", and the US had no right to impose its policies on the rest of the world.

OECD warns Europe on pensions and jobs

By Gillian Tett in Paris

Europe's citizens could face a grim economic future unless their governments take rapid and radical action, the OECD told ministers from 27 industrialised countries yesterday.

The OECD said pension systems were likely to be unsustainable in the future and that there was still little progress in cutting unemployment.

These problems were spread across the OECD, with both the US and Japan facing serious future pensions problems.

However, it is in continental Europe that OECD economists fear that the most radical action is needed to avoid soaring debt levels.

The OECD's full pensions report will not be published until later this year.

However, work by the OECD on the industrialised world has concluded that current pension systems in almost all countries are unsustainable.

The only countries to escape relatively lightly are likely to be Canada, Australia and the UK – although the outlook in the UK may be undermined slightly by the recent worse than expected performance in government finances.

Continental European countries like France and Germany are expected to face severe problems that could sharply push up government borrowing early next century – a factor that could further fuel the markets' concern about the levels of debt that countries participating in a future single currency may have.

One solution might be to raise taxes.

However, some economists suspect this could seriously harm European competitiveness, given the already high levels of taxation on the continent. It believes options such as raising the retirement age could be more effective.

But any move in this direction would go against the recent trends in Europe – and could exacerbate the other problem of unemployment.

On this issue the OECD yesterday presented a bleak picture. Two years after presenting a major study showing the causes of unemployment, its economists yesterday admitted that governments had made little progress.

Follow-up studies intended to provide practical solutions had thrown up no easy options. Countries like the UK and US which have succeeded in cutting unemployment through deregulation, face the problem of widening income levels – something the OECD fears could be socially divisive.

But continental European countries which have avoided this trap have overly rigid labour markets, and the OECD expects some, like Germany, to see higher unemployment in the next two years. In place of any overarching solutions, the OECD is instead suggesting a mixture of policies: countries should improve the help they give to unemployed, and examine their tax and benefits system to ensure that they are not discouraging the jobless from taking jobs.

Unlike some rightwing political groups, the OECD does not believe that simply slashing benefits will push people into work.

However, it does think that the benefits system in many countries could be changed, using the experience of other members.

Overall, the OECD thinks that UK and Japan probably have the most effective mix of benefits and active labour market policies.

It favours the practice in the US, Ireland and UK of giving benefits to those in low paid jobs, thereby encouraging them to enter the labour market.

US links BA tie-up to 'open skies'

By Michael Skapinker in London

The US government yesterday gave its firmest indication yet that it would block any alliance between British Airways and American Airlines unless the UK agreed to conclude an "open skies" agreement with the US.

BA and American are discussing a possible tie-up and industry sources say they are likely to aim for a far-reaching accord allowing them to combine some operations and cut costs. Such an agreement would probably require anti-trust immunity from the US authorities.

However, Mr Patrick Murphy, US deputy assistant aviation secretary, said: "We would have a hard time approving an alliance [between BA and American] with anti-trust immunity absent of open skies."

Negotiators from the two countries met on Monday in Washington. The UK Department of Transport said a possible alliance between BA and American was one subject discussed. However, it is understood the meeting reached no conclusion and no further discussions are planned.

Mr Murphy's announcement came on the day after the US had given anti-trust immunity to several of BA and American's rivals. Lufthansa of Germany and United Airlines of the US received final approval to their application for immunity, which will allow them to combine their operations and cut costs.

Anti-trust immunity will allow Lufthansa and United to operate more like a single airline, posing a powerful competitive threat to both BA and American. Lufthansa will be able to offer its passengers greater access to United's US domestic network. United passengers from the US will take advantage of Lufthansa's international routes.

The granting of anti-trust immunity was tied to the conclusion of an open skies agreement between the US and Germany earlier this year.

The US also gave tentative approval earlier this week for Delta Air Lines of the US, Swissair, Sabena of Belgium and Austrian Airlines to combine their operations. The US indicated that the four airlines were likely to receive anti-trust immunity shortly.

The four carriers operate a number of code-sharing agreements. These allow them to sell seats and put their flight numbers on services operated by their partners. They said anti-trust immunity would allow them to co-ordinate schedules more closely.

BA already has an alliance with USAir, in which it has a 24.6 per cent stake. BA said this week that the alliance had brought it benefits over the past year of $130m. However, BA and USAir do not have anti-trust immunity, which limits the ability to share facilities and offer joint services.

China urges US to end annual MFN wrangle

By Tony Walker in Beijing

Beijing yesterday welcomed the US decision to renew China's Most Favoured Nation trading status, but urged Washington to end its "disruptive" annual review.

China's foreign ministry said the annual review was not conducive to stable, long-term and normal economic and trade relations. "We hope the US will reverse this erroneous practice," said a ministry spokesman.

Earlier, vice-premier Li Lanqing had added his voice to calls for an end to the annual review, saying it was "harmful" for the two sides to engage in an annual wrangle over MFN renewal. Mr Li, who has responsibility for foreign trade, said he hoped arguments over counterfeiting of goods could be resolved without sanctions.

"I feel this is inappropriate. We are not willing to see a trade war. Disputes in trade can be resolved through negotiations," he said.

The US has threatened to impose sanctions on $2bn of Chinese exports unless Beijing upholds a February 1995 agreement to curb rampant piracy of entertainment and information products, such as compact discs and computer software.

There was no sign that Mr Clinton's decision on MFN would have an immediate impact on easing the piracy dispute.

On Monday, Mr Clinton said revoking the favourable US tariff treatment for Chinese imports would amount to severing economic ties and "drive us back to a period of mutual isolation and recrimination that would harm America's interests, not advance them".

However, he said US policy would include "using incentives and disincentives alike to advance core American interests".

China's MFN privilege expires on July 2. The president must notify Congress by June 3 that he is extending it for another year and Congress has 60 days in which it can vote against the extension. US officials have said they expect a tough fight in Congress.

US exports to China rose by nearly 27 per cent last year to $12bn, accounting for 170,000 American jobs.

Li Lanqing yesterday: hopes to see arguments over counterfeiting of goods resolved without sanctions

Indonesian minister in plea over US cotton

By Manuela Saragosa in Jakarta

Indonesia's minister for trade and industry, Mr Tunky Ariwibowo, has requested the US government to address a dispute involving imports of fungus-infected US cotton, a move which analysts say runs contrary to international cotton trade regulations.

Mr Ariwibowo has sent a letter to Mr Dan Glickman, US secretary of agriculture, about the issue. This has raised eyebrows among the business and diplomatic community because it is unusual for a minister to become involved in a dispute over commercial shipments.

Argo Manunggal, one of Indonesia's largest textile companies, says samples of 21,000 bales of cotton from the California-based cotton producer, Calcot, tested positive for cavitoma, a condition caused by a fungus, which can complicate the spinning process.

The Indonesian company, which ordered about 30,000 bales of cotton from Calcot under a contract running from October to March, is seeking compensation as a result.

However, Mr Husein Aminuddin, chairman of the Indonesian Spinners' Association, says Argo Manunggal did not follow international cotton trade procedures in making the complaint and that this may damage the reputation of other cotton importers in Indonesia.

"We should handle this problem in a normal way, proportional and based on procedure," he said.

Argo Manunggal sent samples of the US cotton to a third party for testing but did not seek the required approval from Calcot in appointing the independent inspector. In addition, under international regulations, both parties must decide whether all the cotton or 10 per cent of the imported total is to be examined.

Officials at Argo Manunggal say they did not contact Calcot about involving the Japan Spinners Inspecting Foundation because they were interested only in "documenting the phenomena". "We had not reached the stage yet whereby we wanted to refer to arbitration," said Mr Jeffrey Ng, technical adviser at Argo Manunggal, which ranks among Indonesia's largest conglomerates. "We hope to resolve this in an amicable way."

Optic link arrives via sewers of Paris

By David Buchan in Paris

MFS Communications, a US-based telecoms company, yesterday announced the link-up of its first corporate client to a 20km optic fibre network laid through the sewers of Paris. MFS was the first company to get a licence in France to create a telecoms network independent of France Télécom, because its new service is only for business users.

MFS already has some 60 clients in Paris using a conventional system interconnected with France Télécom, but wanted its own network. Mr Dominique Lancrenon, chief executive of MFS's French subsidiary, said the Paris city council's agreement to let it use the sewers had allowed the optic fibre to be "laid at the rate of one kilometre a week, without any digging up of the streets, traffic jams or damage to the environment".

The 20km network spans the Paris financial district from the Arc de Triomphe to the Bourse, and its first client is Viel, a leading financial institution in the Paris inter-bank market with 350 employees and 2,000 telephone lines. The optic fibre has been supplied by Alcatel of France, and uses a technology known as Asynchronous Transfer Mode (ATM), ironically invented by France Télécom engineers to pack more data down a line.

The same ATM technology is to be used by a new telecom users' group set up yesterday in Sophia-Antipolis, the science park outside Nice. The new group has called itself Club Eurosud 155, because it will be using an ATM network capable of transmitting 155m bits of data a second.

● Bouygues, set to become France's third mobile phone operator by the end of this month, yesterday said it had awarded Northern Telecom of Canada and Matra of France a $50m contract to supply several hundred DCS 1800 receiver stations for new coverage in the Côte d'Azur and Lyons areas and to expand stations in the Paris region.

WORLD TRADE NEWS DIGEST

Siemens in US chip venture

Siemens of Germany and Motorola of the US yesterday said they planned to build a chip plant in Richmond, Virginia, at a cost of $1.5bn. The plant, scheduled to begin operations in the fourth quarter of this year, will produce 64-megabit memory chips.

South Korea's LG Semicon also confirmed its commitment to build semiconductor plants overseas, despite a global glut of memory chips. A company official yesterday said the glut would be short-lived and that LG Semicon would implement plans to build plants in Malaysia and Europe to make 16- and 64-megabit D-Ram chips.

The company is close to agreement for a $1.23bn joint venture in Malaysia with Hitachi of Japan to start commercial production in 1998. A decision on a European plant is expected next month. *Foreign Staff, London*

Zeneca to boost herbicide plant

Zeneca Agrochemicals of the UK yesterday announced plans to double the size of its Gramoxone herbicide plant to be built at Nantong, north of Shanghai. Planned investment has been increased to $80m from $60m.

Mr Michael Pragnell, chief executive of the company, said it was doubling the capacity of the plant to 6,000 tonnes a year because demand for Gramoxone had grown to such an extent throughout Asia.

The plant expects to begin production by 1998. Zeneca's partners include Nantong Pesticide, Jiangsu Agrochemical and Nantong Petrochemical. Zeneca will have a controlling stake. The company said the deal was subject to final negotiations. Among issues to be resolved are duties on capital equipment imports. *Tony Walker, Beijing*

NZ group plans China brewery

Lion Nathan, the biggest liquor group in Australasia, is to build a brewery in Suzhou, south China, where it will produce as much beer each year as all its New Zealand breweries.

It will be Lion Nathan's second brewery in China. Last year it began a joint venture, the Lion Nathan Taihushui Brewery, in nearby Wuxi. In one year the company doubled output at Taihushui to 120m litres.

Lion Nathan, which produces Castlemaine XXXX, Swan, Tooheys and Steinlager beers, will invest NZ$200m (US$137m) in the Suzhou brewery over the next two years and will be wholly owned. *Terry Hall, Wellington*

■ Chrysler, General Motors and Ford of the US sold 10,603 vehicles in Japan during April, a 45 per cent improvement over the previous year, according to the American Automobile Manufacturers' Association. US car companies held a 2.1 per cent share of the Japanese vehicle market in April, up from 1.4 per cent a year earlier, it said. *AFX Washington*

■ The European Union will take counter-action against the US after the World Trade Organisation set up a panel to examine an EU ban on imports of hormone-treated beef, Mr Franz Fischler, farm commissioner, said yesterday. The WTO agreed on Monday to look into Washington's complaints that an eight-year-old EU ban on imports of beef treated with growth-promoting hormones breaks trade rules.

But Mr Fischler said unilateral US sanctions against EU food and drinks exports were also against trade rules, and the EU would be taking action. *Reuter, Geneva*

BJP pledges 'reformist' budget in July

By Mark Nicholson in New Delhi

A Bharatiya Janata party government would offer a "strongly reformist" budget by the first week of July if it won next week's vote of confidence in India's newly elected parliament, Mr Jaswant Singh, finance minister, said yesterday.

Mr Singh said in an interview that the "broad outlines" of such a budget would be contained in the new government's agenda, to be presented in an address to both houses by Mr Shankar Dayal Sharma, the president, during Friday's opening of parliament.

However, there are indications that BJP leaders believe Friday's speech will be more a swansong than an overture. With no sign yet of other political parties' support shifting towards the BJP, the Times of India yesterday caught Mr Atal Behari Vajpayee, prime minister of five days' standing, referring to himself in an interview as an "interim" prime minister.

The BJP remains 70 seats short of a parliamentary majority before the vote of confidence, due by May 31. It has so far managed neither to split the Congress party, which has pledged to vote against it, nor won defections from the Janata Dal-led regional-secular alliance which is intent on making its own claim to govern.

The group, which embraces a dozen parties and now claims 194 MPs, has christened itself the United Front and will today formally elect Mr Deve Gowda as its leader.

Nevertheless, the BJP appears determined to use Friday's address to set out a clear agenda for government. Mr Singh said the address would contain a "blueprint" for further economic reform which would differ in some respects from the previous Congress government's policies.

The government would create a "disinvestment commission", comprising professionals and bankers rather than bureaucrats, to make recommendations on sales of public sector assets, which a BJP government would encourage.

India's high fiscal deficit, he said, would be tackled by cuts to government spending through such means as tendering out services. "There are many areas for immediate pruning in spending," he said, adding there would be no mass retrenchments.

Mr Singh also said a first budget would further liberalise the "fiscal system, banking, insurance and non-banking financial institutions", with the aim of improving the range of products available to domestic savers. A BJP government would seek to raise India's savings rate to 30-35 per cent from the present 24 per cent.

He ruled out immediate foreign entry into the state-run insurance sector.

A BJP government would add "clarity" to rules regarding foreign direct investment, Mr Singh said. He favoured abolishing the Foreign Investment Promotions Board, which approves bigger FDI projects on a largely discretionary basis, in favour of a "broader, faster and more transparent" system, which would also be more decentralised.

● Reuter adds: Mr Sikander Bakht, a liberal Moslem, was named yesterday as Indian foreign minister.

Crackdown in Burma ahead of anniversary

By Ted Bardacke in Bangkok

Burma's military government has detained at least 44 leading members of the opposition National League for Democracy (NLD) in the widest crackdown on political activity since NLD leader Aung San Suu Kyi was released from house arrest nearly a year ago.

The arrests come ahead of meetings at the weekend to mark the sixth anniversary of the 1990 elections, which were annulled by the military. The poll was overwhelmingly won by the NLD.

This week's arrests involve members of the 1990 parliament. Along with more than 200 other NLD members also elected in 1990, they had been planning to attend a meeting at the weekend at Ms Suu Kyi's Rangoon home.

Burma's ruling military junta has reacted furiously to the planned gathering. "Lackeys of the colonialists and traitors are disrupting efforts to implement political, economic and social objectives," Lt-Gen Khin Nyunt, Secretary-1 of the State Law and Order Restoration Council (Slorc), told a teachers' re-training course on Monday.

Commentaries in the state-run media called on Slorc to end the activities of "snakes" such as Ms Suu Kyi.

Ms Suu Kyi, whose calls for a political dialogue with Slorc have been repeatedly ignored by the military, said the meeting would take place as scheduled, despite the arrests.

But an opposition spokesman indicated the number of detainees "was likely to increase by the hour". He said the wives of two NLD members had been arrested when authorities could not find their husbands at home.

Diplomats in Rangoon said Slorc wanted to head off any moves to set up a parallel government or any body that might rival their own national convention, which is drawing up a new constitution to give the military "a leading role" in Burma's political future.

Suu Kyi: meeting to go ahead

"It's the unpredictability of the whole thing that worries an authoritarian government like this," said one diplomat. "They can't take any criticism of their version of reality or their vision of the future."

Ms Suu Kyi has on two separate occasions been prevented from travelling outside Rangoon and recently four of her supporters were each jailed for seven years for parodying military leaders at a private party.

Slorc's failure to address human rights issues, such as forced labour, and move ahead with political reform after releasing Ms Suu Kyi last year has kept multilateral agencies such as the World Bank and the IMF out of the country, a problem for an economy which Slorc officials admit is in need of a financial cushion to support devaluation.

But greater investment by Asian countries and western oil companies has helped power economic growth without a serious programme of structural reform.

Australia setback on Telstra sell-off

By Nikki Tait in Sydney

Australia's new conservative federal government suffered its first big parliamentary setback yesterday, when legislation which would allow it partially to privatise Telstra, the large telecommunications group, was sent off to a select committee by the Senate.

The committee is not due to report until August 22, well after the current parliamentary session ends, and debate on the bill will be postponed until after that.

The motion to refer the Telstra bill was proposed by the Labor opposition and supported by the minor parties, which hold the balance of power in the Senate, parliament's upper house.

The referral has been a likelihood for days and the coalition has already indicated that it views the move as a "delaying tactic".

"This is not a genuine committee inquiry... This is an attempt to avoid actually voting down the bill," claimed Senator Robert Hill, the government's Senate leader.

Some senior ministers went further, describing the referral as a failure by the Senate to pass the legislation, and thus the first step towards a "double dissolution" (of both houses of parliament, to be followed by fresh elections). Labor discounted this interpretation, however, saying committee referrals were standard.

Unless the minor parties relent in their opposition to the bill, a "double dissolution" looks increasingly likely to be the only way through the parliamentary stalemate. The bill would have to be rejected twice by the Senate within a certain time-frame, elections called, and the bill put to a joint sitting of both houses. Most observers think this would take until mid-1997 at the earliest.

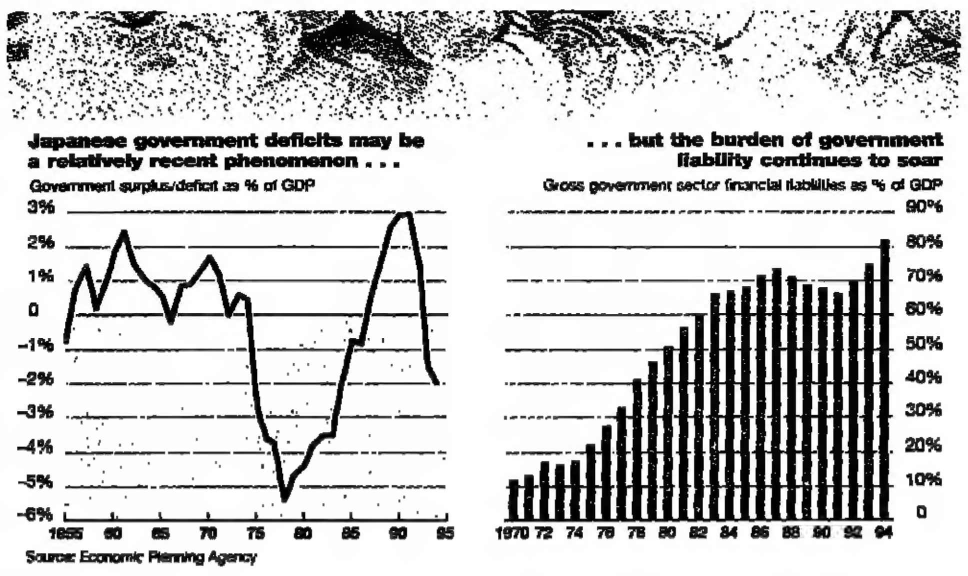
The Telstra bill provides for the sale of one third of the organisation to private investors, with strict caps on foreign ownership. Such a sale has been estimated to raise around A$8bn (US$6.4bn).

In a separate development, the Victorian state government said yesterday it intended to sell the Hazelwood power station by August this year in part of the steady privatisation of the state's electricity assets.

The five distribution companies have been sold, mainly to US-based utilities, while the Yallourn power station – the first of the generating assets to be sold – went to a consortium headed by Britain's PowerGen for A$2.43bn in March.

The Victorian government said it had written to interested parties over Hazelwood, inviting tenders.

● Mr Alexander Downer, Australia's foreign minister, confirmed yesterday that he intends to meet the Dalai Lama when the Tibetan religious leader visits Australia in September, despite warnings from Chinese diplomats that this could affect the bilateral relationship between Australia and China.



Tokyo steels itself to defuse debt bomb

Japan's prime minister, Mr Ryutaro Hashimoto, is about to face a crucial test of his five-month tenure: how to take the first step to defuse what threatens to become the biggest explosion of government debt in the industrialised world.

Senior officials of his Liberal Democratic party say they want to start talks with other leading political parties on an unpopular and much deferred plan to increase sales tax next April from 3 to 5 per cent.

It would be a small but significant step towards correcting an imbalanced tax structure, which relies too much on an ageing population's declining income tax base and does not raise enough money from indirect taxation.

Without radical action, including further rises in sales tax, cuts in pension payments and increases in contributions, Japan's net government debt would explode from 10 per cent of gross domestic product to nearly three times national income by 2030, predicts the Organisation for Economic Co-operation and Development.

Radical steps are unlikely, but the matter has at least come to a head in Tokyo, for reasons financial and political.

Two decades of rising government spending on medical insurance and pensions, swollen by the tax cuts and public works packages of the past recession, have already turned the Japanese government's balance sheet from one of the healthiest to one of the weakest among leading economies.

This year, the situation has worsened. The gap between spending and revenue is set to reach 4.5 per cent of Japan's GDP this year, the highest since the late 1970s and well above the OECD average. The government will have to borrow a record Y21,000bn ($196bn) this year to plug the gap.

A rise in sales tax has been mooted several times over the past three years, but deferred – at least officially – for fear of worsening Japan's recession.

Mr Hashimoto, emboldened by the gathering economic recovery, wants to report a tax deal at the Group of Seven summit in July. If not, he would settle for agreement by September, to give the resulting public shock wave a chance to subside before the general election that LDP heavyweights want to hold early next year.

How did Japan's government finances get into such a mess? Ironically, Mr Hashimoto can thank none other than Mr Kakuei Tanaka, his political mentor, former LDP godfather and prime minister, for the origins of Japan's debt headache.

Japan ran budget surpluses for most of the first three decades after the second world war. It was Mr Tanaka's ambitious public works projects of the early 1970s that began the first wave of annual deficits, interrupted by surpluses during the high tax revenues of the late 1980s phase of fast economic growth. That was followed by a return to annual deficits resulting from reduced revenues and increased spending during the recession, intensified by a return to a Tanaka-style civil works splurge.

Hashimoto can no longer put off moves to raise more from indirect taxation

As a result, the rise in gross outstanding central government debt has accelerated from just under half of GDP at the turn of the decade to nearly three quarters of national income now, dwarfing the US's 60 per cent.

Admittedly, that exaggerates the real position. Unusually, the Japanese government holds a large amount of its own debt, by borrowing money from the postal savings system to buy its own bonds. Adjusting for that oddity, Japan's net government debt falls to just over a tenth of national income, well below the US net debt of just over half its GDP.

But whoever owns its bonds, the Japanese government must pay interest on its rising debt burden. This year, its interest bill will swallow a record 20 per cent of government spending. That is why finance ministry officials believe a two percentage point rise has been informally taken for granted by the LDP.

What remains to be settled is whether it will have to be sweetened by continuation of a Y2,000bn a year income tax rebate and another public spending package.

A two point rise in sales tax will do very little, at first, to help – especially if expensive persuasion is needed. At current rates of private consumption, it could raise just over Y5,000bn a year, estimates the Tokyo office of ING Baring Securities, less than a third of this year's Y16,300bn government debt servicing bill.

Even without a rise in consumption tax, the government's annual budget would balance – on the strength of increased tax revenues in the economic recovery – by the end of the decade, predicts Mr James Vestal, a US economist, in a recent report for Barclays de Zoete Wedd Research.

The real gain would come later, from a stronger tax structure. A shift in favour of indirect taxation would at last break the impact of the grey tidal wave preparing to sweep away the government's finances, argue officials.

Japan has the fastest ageing demographic profile in the world, in which the over 65s will rise from the present 18 per cent of the population to 27 per cent by 2010, according to the OECD.

Not only is the income tax base set to shrink as more wage earners retire, but the mounting bill for pensions and medical care will push the government further into debt. And yet, the state still derives just over two-thirds of tax revenue from income tax, well over the 38 per cent average for OECD economies.

Recent Japanese governments have, with a one ill-fated exception, shrunk from tackling what was a politically dangerous problem. The LDP government which introduced sales tax – at its present rate – in 1989 lost, in consequence, an election for the upper house of parliament the same year. That started the chain of events which led in 1993 to the first fall of an LDP government in nearly four decades.

But much has changed in recent years. A sharp rise in the number of Japanese to take holidays abroad may have brought home the realisation that Japan's sales taxes are very low by international standards, speculates Mr Chris Redl, political analyst at ING Baring Securities.

In short, the Japanese government is at long last ready to tackle the conundrum, even if the solution only starts at the surface.

William Dawkins

HK business leader warns Patten

By John Ridding in Hong Kong

Hong Kong's General Chamber of Commerce, one of the territory's main business organisations, yesterday called on Mr Chris Patten, the governor, to accept China's plan to replace the territory's elected legislature.

In an open letter to Mr Patten, Mr James Tien, chairman of the chamber, warned that refusal to co-operate with a provisional legislature would have an "adverse effect" on Hong Kong's transfer from British to Chinese sovereignty next year.

Mr Patten rejected the call. "There is no question of us doing anything which would undermine the lawfully constituted Legislative Council," he said.

The governor added that the body had been openly and fairly elected and was consistent with the treaties governing the handover. "We see neither the justification nor the need for a replacement or provisional legislature."

The exchange marked the latest step in a row between the governor and members of the business community. On Monday seven business organisations, including the General Chamber of Commerce, wrote to Mr John Major, UK prime minister, accusing Mr Patten of damaging the image of the business community in comments made during a recent tour of North America.

Relations between the two sides have been strained by Mr Patten's implementation of democratic reforms, opposed by China and many members of the business community, and by his call for business leaders to play a more assertive role in defending Hong Kong's political and social institutions.

In his letter, Mr Tien also urged the governor to second senior civil servants to the provisional legislature, which will be chosen by an electoral college to be formed by the Beijing-appointed preparatory committee.

Mr Tien said the business community "intends to co-operate fully with both the preparatory committee and the provisional legislature, as well as the current Legislative Council".

China refuses to recognise the existing legislature, which was elected last year under Mr Patten's political reforms.

ASIA-PACIFIC NEWS DIGEST

US appeals to China on N-test

US defence officials yesterday urged China to halt plans to carry out a new underground nuclear test, and said they had urged Russia and Ukraine not to sell long-range nuclear missile technology to Beijing.

Mr William Perry, defence secretary, said China had approached Russia to obtain technology related to the SS-18 long-range missile, adding that Washington had warned Moscow it would be "a big mistake" to allow China to expand its relatively small long-range missile force.

Mr Perry said he believed transfers of the SS-18 technology to China would be a violation of the Strategic Arms Reduction Treaty, which permits Russia to use SS-18 rocket boosters for commercial space launching.

Mr Walter Slocombe, undersecretary of defence, warned that Beijing was preparing for an underground nuclear test at the Lop Nur test site in the north-west, although he added China had recently shown "some flexibility" on the question of ending such tests. *Patti Waldmeir, Washington*

Beijing cool on Taipei overture

China said yesterday that Taiwan must show by its actions and not simply in words that it was anxious to improve relations with the mainland. In his inaugural speech on Monday, President Lee Teng-hui of Taiwan had offered to make a "journey of peace" to the mainland to talk to Chinese leaders. But he hedged his offer, saying he would do so "in the future, at the call of my country and with the support of its people".

China's Taiwan Affairs Office declined direct comment on the speech, but made it clear it regarded Mr Lee's statement as inadequate. "The Taiwan authorities must first stop their international activities to create 'two Chinas' or 'one China, one Taiwan', and must take the stand of a single China, not only in words but in actions," it said.

Beijing reiterated its satisfaction with the campaign it waged against Taiwanese independence, saying it had exposed Taiwanese leaders who had supported unification as a cloak for their pro-independence activities. China had accused Mr Lee repeatedly of such activities, but since the March 23 presidential poll has toned down its attacks. China regards Taiwan as a renegade province and has refused to renounce force to secure its return. *Tony Walker, Beijing*

■ Nine Moslem separatists, armed with guns and home-made bombs, were killed in a gun battle this month with police in China's north-western Xinjiang region, local officials said yesterday. The shootout came soon after authorities in Xinjiang ordered a crackdown on separatists who, they alleged, were seeking to stir up a holy war. *Reuter, Beijing*

Lee defiant on Singapore deal

Mr Lee Kuan Yew, Singapore's former premier, and his son, Mr Lee Hsien Loong, deputy prime minister, told parliament yesterday they had been given no special favours when they received discounts from a developer on multi-million-dollar condominiums. "I have never taken advantage financially of my position," Mr Lee Kuan Yew said during a parliamentary debate on the purchases.

The debate followed concern over soaring real-estate prices which prompted the government last week to announce sweeping measures to cool the overheated property market.

Mr Lee Kuan Yew, now senior minister, said "there is nothing to hide" and that he was prepared to face a commission of inquiry on the purchases. Prime Minister Goh Chok Tong told parliament he was satisfied there was no impropriety in the Lees' transactions. The Lees have announced they will donate the discounts to charity to erase any doubts about the transactions. *AFP, Singapore*

Pakistan power funding agreed

The World Bank has announced the completion of a $630m financing package for the Uch power project in Pakistan, after the institution agreed to provide a guarantee to catalyse private-sector investment for the project.

The bank's pledge to provide a "partial risk guarantee" for the 586MW gas-fired project in Pakistan's Balochistan province helped to mobilise a $75m syndicated loan by its private lending arm, the International Finance Corporation. This is the first time the two organisations have collaborated on such a guarantee.

Pakistani authorities say financing will soon be completed on several additional power projects which would increase generating capacity by more than 3,000MW. The government says it has attracted considerable private-investor interest in the sector and will announce further incentives later this year.

The bank guarantee, which provides support for a debt service default resulting from non-performance of certain contractual obligations undertaken by governments or their agencies, made it possible to extend the maturity of the IFC loan to 15 years, the longest maturity to date for a commercial financing package for Pakistan.

Patti Waldmeir, Washington and Farhan Bokhari, Islamabad

NZ election date announced

Mr Jim Bolger, New Zealand prime minister, yesterday announced general elections would be held on October 12. The most recent opinion poll shows the popularity of Mr Bolger and his National party slipping.

Mr Bolger said the government would campaign on its record of stability, despite growing signs that economic slowdown is alienating voters. *Terry Hall, Wellington*

Clinton accused of stealing Republican party ideas

Dole pushes welfare reform

By Jurek Martin in Washington

Dole acknowledges applause before addressing a meeting yesterday Reuter

Senator Bob Dole yesterday took his presidential campaign to Wisconsin, home of the US's most radical welfare reform plan, to outline his own blueprint and again to accuse President Bill Clinton of being the main obstacle to a solution of this controversial social policy issue.

Over the weekend Mr Clinton, who will himself visit Wisconsin later this week, indicated he would probably grant the state's welfare plan a waiver from federal guarantees for the poor. This was in line with a policy of allowing the states greater experimental leeway on social policy matters: 38 have already received welfare waivers.

But Mr Dole promptly accused the president of "petty theft" in attempting to annex Republican ideas and recalled that Mr Clinton had twice vetoed welfare reforms bills passed by the Republican-controlled Congress.

Having entered the White House on the promise to "end welfare as we know it", Mr Clinton's current position, repeated over the weekend, is that he is ready to sign a welfare bill only if it is stripped of conditions changing Medicaid regulations for the elderly.

The Wisconsin plan is the handiwork of Governor Tommy Thompson, one of four Republican Midwestern governors frequently mentioned as a possible vice-presidential running mate for Mr Dole.

Its principal features include the abolition of the main federal welfare programme – Aid to Families with Dependent Children – and it would require every adult on welfare to work, if necessary in public service or charitable jobs, with a maximum entitlement period of five years. Wage subsidies would be provided to the most needy.

It is easily the most radical plan put forward by any state and has been sharply attacked by groups believing it puts poor children, in particular, at risk.

There is mixed evidence that what Mr Thompson calls his "tough love" approach works in practice. An independent audit of another welfare-related Wisconsin project, which cuts benefits to families whose children are chronic truants from school, found no discernible improvement in classroom attendance. But a similar experiment in Ohio apparently produced the desired results.

Mr Dole was expected to embrace the Wisconsin approach in his Fond du Lac speech later yesterday. It was less clear if he would endorse mandatory drug testing for all welfare recipients, a course urged on him by conservatives but opposed by civil liberties advocates.

Since his announcement last Wednesday that he intended to resign his seat in Congress, Mr Dole has been out of Washington more than in it. But his remarks at rallies in Chicago, Florida and at a North Carolina car racing track have been brief as his staff has struggled to adapt to a campaign no longer rooted in the Senate.

The few polls taken since last week have shown general approval for his decision to cut his ties with Congress and some small reduction in a deficit behind Mr Clinton that had been exceeding 20 per cent.

Cuba still shy of investment

And the US stance makes matters murkier, reports Pascal Fletcher

Two months after it was introduced, new US legislation tightening Washington's longstanding economic embargo against Cuba has thrown a fog of uncertainty over the prospects for future foreign investment on the island.

But perhaps equally worrying for the Cuban government is a creeping perception among some Cuba-watchers that the country's own much-trumpeted opening to foreign capital may not be as wide and welcoming as was previously thought.

Since the downing by Cuban Mig fighters of two small US aircraft on February 24, and the subsequent retaliatory legislation from the US on March 12, policy statements by the Cuban leadership have struck a highly defensive note, suggesting a retreat to the ideological bunker by the island's one-party communist rulers.

Recent speeches by Cuban President Fidel Castro and his brother Raúl, the defence minister, often containing ideological language reminiscent of the revolutionary 1960s and 1970s, have created an impression that Cuba's embrace of foreign capital and market-oriented reforms is not only less than enthusiastic, but could, in some circumstances, actually be rolled back.

This perception has been compounded by continuing complaints by some foreign businessmen in Cuba about bureaucratic delays and obstruction in the process of negotiating investment projects.

The Helms-Burton embargo legislation, named after its anti-communist Republican sponsors in the US Congress, threatens sanctions against foreign companies and their executives who "traffick" in expropriated property formerly owned by US citizens, including Cuban exiles.

"No foreign investor interested in Cuba can afford to ignore the famous or infamous Helms-Burton law and in the case of Canada, it has clearly already had a significant chilling effect on investment decisions," the Canadian ambassador to Havana, Mr Mark Entwistle, told a foreign investment workshop in Havana.

Mr Entwistle described the law as a "blunt political instrument" whose suggested range was "so broad as to include everything but the proverbial kitchen sink".

There have been no publicised cases so far of existing investors withdrawing from the island because of the Helms-Burton law. But Cuban officials acknowledge that the pace of foreign investment has slowed since May 31 last year, when there were 212 projects recorded totalling $2.1bn of funds committed, mostly from Mexico, Canada, Spain and other EU nations. Officials, citing a renewed need for discretion, decline to give updated figures.

In his most recent speech, President Castro remarked sardonically that the backers of the Helms-Burton law, by seeking to keep foreign capitalists out of Cuba, were defending the island's socialism. "They want 100 per cent socialism in Cuba, they want no one to invest," he said.

But the Cuban leadership has also made clear it would like to keep the country's socialism as "pure" as possible. In a political report delivered in late March, Mr Raúl Castro mentioned foreign investment, along with tourism, academic exchanges and the island's fledgling private sector, as areas where Cubans needed to be alert against "ideological penetration" and "subversion by the enemy".

At least one foreign ambassador, from one of Cuba's main trade and investment partners, is understood to have raised these concerns directly with Mr Carlos Lage, the Cuban vice-president, closely associated with the island's economic opening over the last five years. Mr Lage's response was that Cuba was still "open for business".

Nevertheless, Cuba's image as a new convert to economic reform and foreign investment was not helped by the European Union's decision earlier this month to put on hold formal negotiations for an economic co-operation agreement with the island.

Although Cuban officials stressed that dialogue with the EU would continue, a European Commission spokesman indicated that Cuban inflexibility over European recommendations for political reforms and faster economic liberalisation was behind the impasse.

Cuban officials strongly deny there has been any slackening in official commitment to economic reform. They cite the need for a period of "consolidation" to order and regulate the island's new-look economic landscape, the result of a series of decentralising reforms introduced mostly since mid-1993.

"The reforms cannot go faster than the nation can assimilate," Mr Octavio Castilla, deputy foreign investment minister, said. This clearly means politically as well as economically.

Mexican political talks set to resume

By Leslie Crawford in Mexico City

Mexico's political reform talks appeared to be back on track yesterday after National Action (PAN), the biggest opposition party, agreed to return to the negotiating table following a three-month boycott prompted by electoral fraud in a tiny municipality in the state of Puebla.

The PAN's absence had threatened to sink President Ernesto Zedillo's goal of achieving a national accord on political reform. Last week, however, the ruling party's mayor in Huejotzingo resigned and was replaced by a PAN appointee, clearing the path for the opposition to return to the talks.

The storm over Huejotzingo is an example of how the most insignificant electoral contest can destabilise national politics in Mexico. Since Mr Zedillo took office 18 months ago, opposition parties have exploited cases of electoral fraud and other political grievances to extract concessions from the government. As a result, the national talks on political reform – which aim to bring about cleaner elections – have been a stop-go affair.

The mayor's resignation in Huejotzingo, however, may have created more problems for Mr Zedillo than it intended to solve.

The ruling Institutional Revolutionary party (PRI) is furious over the way in which its mayor was deposed in Huejotzingo, and has begun to question Mr Zedillo's commitment to his own party, as well as the government's perceived weakness in dealing with the conservative opposition.

"The rule of law was defeated; politics was defeated and the citizenry were defeated," Mr Santiago Oñate, the PRI president, said of the Huejotzingo deal, while Mr Manuel Bartlett, the hardline governor of the state of Puebla, accused the PAN of political blackmail.

Government officials denied any secret deal had been reached with the PAN to resolve the dispute, though the affair bore all the hallmarks of previous back-room deals between the PAN and the government to fix post-electoral problems.

The split between the president and his party is likely to become more pronounced during the PRI's national convention in June, when it is likely to criticise the government's orthodox economic policies and the president's scant regard for the opinions of the party which sustains him in power.

Argentina warns UK over Falklands

By David Pilling in Buenos Aires

Argentina yesterday warned Britain not to pursue a UN resolution recognising the right of Falkland islanders to self-determination, saying "any change of status [of the British colony] would lead to the freezing of fishing and oil talks" with London.

Mr Guido Di Tella, Argentina's foreign minister, said: "We trust that the UN will reject the request" of the islanders and recognise the "irrelevance of the principle of self-determination" in this case.

Since the 1982 war over the disputed islands, Britain and Argentina have re-established diplomatic links. They have also put aside the sovereignty issue under the so-called "umbrella" arrangement, enabling them to conclude accords on fishing quotas and oil exploration.

But Argentina's foreign ministry warned yesterday that "many things could come tumbling down," should the self-determination clause prosper.

The UK yesterday played down the foreign minister's remarks, saying it had received no formal complaint from Argentina.

Mr Di Tella was reacting to suggestions that the 24-member UN Committee on Decolonisation might consider including such a clause in a Falklands resolution when it meets next in New York this July.

The committee has previously rejected pressure from the UK and the Falklands to include a clause on the islanders' right to self-determination, instead passing a resolution that merely encouraged dialogue between London and Buenos Aires.

This year, however, several committee members, such as Trinidad and Tobago, Sierra Leone and Papua New Guinea, have "recognised this as an omission" and are disposed to agree to a self-determination clause, said a British Foreign Office spokesman.

"We want to see self-determination included in the resolution," the spokesman said. "We have pushed for this in the past and we will push for it again this year."

All other committee resolutions included a clause on self-determination, which the committee "professes to consider one of its most important principles," he said. Britain's support of the idea was "nothing new" and Argentina "should not be surprised by our action."

'Mad cow' crisis: While praised at home, the UK prime minister's action has invited European condemnation

PM's threat echoes de Gaulle's 'empty chair' policy

By Caroline Southey in Brussels

There was confusion in Brussels last night over the role model adopted by Mr John Major, Britain's prime minister, in declaring his non-co-operation with the other 14 member states of the European Union.

Some speculated that he might be trying to follow in the footsteps of President Charles de Gaulle of France, the only EU head of state ever to withdraw from all co-operation with the rest of the community, when he abandoned his seat at the table in 1965. His infamous "empty chair" policy brought decision-making to a virtual standstill.

Others suggested that his actions were more reminiscent of Mr Andreas Papandreou, the former Greek prime minister, who repeatedly held unrelated decisions hostage in the 1980s to win his way on issues of vital national interest.

However, Mr Major appears to have opted for a "half-empty chair policy", threatening only to withdraw co-operation from the intergovernmental conference reviewing the EU's treaties, and to block any decisions requiring a unanimous vote in the Council of Ministers.

"The general's position and Mr Major's are different by several light years," according to Sir Roy Denman, a former top British official in the European Commission. "De Gaulle was a towering figure and France, at the time, was the power in the union."

EU officials said Britain's move was unlikely to have any impact on EU business in the short term.

Discussions in the IGC were still at a preliminary stage. "We are not at the final drafting stage yet," the official said. The IGC organisers had decided to take a "low key approach" at the heads of state summit in Florence at the end of next month.

However, one official said Britain's move could begin to have a bearing on decisions in the IGC if the crisis extended beyond the summer.

As far as Britain's threat to block any decisions requiring unanimity was concerned, EU officials believed there were few instances where the policy would provide the UK government with concrete leverage.

A decision that could be affected concerns Europol, the planned EU-wide police force which would deal with drugs, fraud, and illegal immigration. Mr Major's move could scupper delicate behind-the-scenes negotiations on the subject of the European Court's jurisdiction over Europol which had offered the hope of a deal being struck at the Florence summit.

Another casualty could be a job-creating initiative launched earlier this year by Mr Jacques Santer, the Commission president, under which EU surplus funds from the 1998/1999 budget would be used to finance projects such as trans-European rail and road networks.

Britain has also served notice it might not sign the European Convention on Insolvency which aims to lay down common rules on bankruptcy across the union. Only two countries - Britain and Ireland - have so far refused to put their names to the agreement.

But EU officials' main concern was the longer term damage Britain's announcement could have on British/EU relations.

"This will only increase the ill will between the rest of the EU and Britain to danger point," Sir Roy said. "If the Tories are re-elected many will argue that it is time to say goodbye to Britain. After all it has not co-operated with the Europeans for 22 years."

Major's tough line wins approval

George Parker reports on the premier's new 'get tough' approach on the beef crisis

When European vets voted on Monday night not to lift the export ban on beef products, Mr John Major was ready to enact a hard-hitting and well-prepared contingency plan.

According to one senior minister, Mr Major reacted angrily to the humiliating setback but then proceeded to prepare his response with grim determination. By the time he made his announcement to the House of Commons, it seemed he was almost enjoying himself.

The prime minister clearly believed he had found an issue on which he could take a robust line on Europe, without splitting his party in two. The early signs were that he had largely succeeded.

Mr Major woke early yesterday to begin rallying ministerial support for his new "get tough" approach on the beef crisis, often giving them little chance to prepare or voice their reservations.

His favoured method, using the veto and non-co-operation to block forthcoming EU business, was the favoured option of the Foreign Office, which had prepared alternatives if diplomacy failed to achieve a partial lifting of the ban.

Mr Major contacted Mr Malcolm Rifkind, foreign secretary, in Strasbourg early in the morning to discuss his plan and then spoke to Mr Douglas Hogg, also on European business in Brussels. Both later flew back to London for further talks at Downing Street.

Mr Michael Heseltine, deputy prime minister, was told of the plan by fax on a visit to China, and Sir Nicholas Lyell, attorney-general, reported he was ready to challenge the EU beef ban in the European court.

The most crucial meeting took place in mid-morning at Number 10 when Mr Major saw Mr Alastair Goodlad, the chief whip, and Mr Kenneth Clarke, the fervently pro-European chancellor.

Mr Clarke, who argued strongly against threatening retaliatory measures three weeks ago when the idea was first mooted, is the most fervently pro-European member of the cabinet.

But friends said despite his reservations, even he recognised the need for Britain to adopt a new approach, and was "comfortable" with the threat to disrupt the forthcoming IGC.

With all the main players squared, Mr Major took his plan to the Commons. His announcement that legal action against the ban would begin this week was greeted with muted support from the Tories but there was a roar of relief when he delivered his bombshell.

"I have to tell the House that without progress towards lifting the ban we cannot be expected to co-operate normally on other community business," he said.

Sir Peter Tapsell summed up the mood on the Tory benches when he said the statement would be greatly welcomed by the British public. And in rhetorical flourish more associated with wartime, Sir Peter said the country found itself at "a moment of national crisis".

Some Tories wanted to go further: Mr Bill Cash insisted that Britain should suspend its payments to the EU.

Pro-Europeans kept their heads down, although Mrs Edwina Currie said she was "very uneasy" about Mr Major's statement.

Mr Tony Blair, leader of the opposition Labour party, seemed unable to find a penetrating line, except to suggest that Mr Major would not carry through his tough words.

Doubts cast on science of export ban decision

By Caroline Southey

A mixture of motives is being attributed to the vets from seven EU countries who late on Monday night voted down lifting the export ban on three British beef products.

The picture emerging of the 13-hour meeting is that the vets cast their votes for reasons ranging from residual anger with Britain for its management of the BSE crisis, to doubts about the effectiveness of the selective slaughter programme. But few based their decisions on scientific evidence in front of them.

The vets were presented with a scientifically stringent proposal. The idea, mapped out by Mr Franz Fischler, EU commissioner for agriculture, was that the the EU should impose tough conditions for the manufacture of tallow and gelatine in Britain. Once in place and checked, the export ban on these products could be lifted. This would also apply to semen. The proposals were accepted by a majority, including France.

"Germany was the only country to speak out against Mr Fischler's proposal," said the EU diplomat. The rest – Austria, Spain, Portugal, Luxembourg, Belgium, the Netherlands – "had no substantive reasons to continue voting against the plan", he said.

Mr Jochen Borchert, the German agriculture minister said Bonn had to be certain that gelatine and tallow manufacturing processes were safe and that beef was completely free of BSE.

The EU official said Austria "in a very small voice, echoed the German position".

Dutch vets argued that third countries might be put off buying semen from the Netherlands once British semen was allowed into the country.

In the case of Belgium and Luxembourg, according to an EU official, there was an element of "Benelux solidarity".

Spain and Portugal seemed to linkthe question of lifting the ban on beef derivatives to the broader question of the veracity of Britain's selective slaughter programme.

EU officials said a number of countries felt Britain had presented "too little too late" on the slaughter policy. "There is still not enough detail and a feeling that they are only half putting the proposal on the table," said one. This, said another, played into broader unease about Britain's management of the BSE crisis dating back to 1988.

● The EU has called a meeting of farm ministers next month to discuss BSE in a bid to break the deadlock.

EU states deplore growing conflict

Financial Times Reporters

Britain's pledge to obstruct European Union business was deplored last night by officials from other EU nations as a self-defeating measure which could poison the atmosphere in which the beef crisis is being addressed.

Both the European Commission and diplomats from several member states said the UK ought to focus on the beef problem itself instead of trying to pick a broader fight with its partners.

But there was relief among EU diplomats that Mr John Major had resisted pressure from his hardline supporters openly to defy European law by taking action such as a retaliatory trade embargo.

"It's not in Britain's interests to intensify the conflict," said Mr Philippe Vasseur, the French farm minister."Britain would complicate things if it carries out its threat."

It was stressed in Paris last night that this week's meeting of veterinary officials had come close to lifting the ban on some UK beef products, and there were good prospects for progress at a farm ministers' meeting on June 3. "France wants to co-operate and show understanding," said one official. "But it does not help if you make dramatic gestures."

The Commission, in a caustic comment on Mr Major's threat to hold up EU business, said the crash in the beef market was a problem for the EU as a whole and "a solution can only be achieved thought the proper functioning of the Union's institutions and procedures." It was "in all the member states' interests" to safeguard these procedures, a Commission spokesman said.

In the UK yesterday, Mr Richard Macdonald, leader of the National Farmers' Union, said the government's move to slow EU decision-making was "a risky one". But he added that there was a strong argument to "up the ante". The NFU yesterday lodged formal proceedings against the ban in the European Court of Justice. The union also decided to ask the court to grant an immediate, temporary suspension of the ban on gelatine, tallow and semen, and possibly on exports of British beef to third countries, while the full case is heard.

Continent's leaders fete opposition Labour party's fiscal envoy

By Robert Peston, Political Editor in Paris

Mr Gordon Brown, the opposition Labour party's chancellor of the exchequer, may be regarded as a pariah at times by his colleagues because of his determination that a Labour government should cut public spending before making new commitments. But in mainland Europe he is being feted.

On Monday night, he was spreading the gospel of Labour party modernisation among an influential group of French politicians and policy boffins.

The big topic for discussion was Labour's European credentials. Having been engaged for years with a British government whose European Union views have been moving from agnosticism to scepticism, they wanted reassurance that a Labour government would be different.

It is important for Labour to provide this reassurance. If it forms a government after the forthcoming general election – to be held in the spring of next year at the latest – it will take over the presidency of the European Union at the end of 1997, during the crucial final phase of moves towards monetary union, scheduled for 1999.

The German and French governments, although both on the right, have appeared keen to establish a relationship with Labour.

There have been separate meetings with Mr Hans Tietmeyer, the Bundesbank president, Mr Theo Waigel, the German finance minister, Mr Alexandre Lamfalussy, the president of the European Monetary Institute, and Mr Jean-Claude Trichet, the governor of the Bank of France.

Mr Brown's message was that Labour believes in developing the European Union through co-operation with other member states. He is not a federalist, but he is persuaded of the argument for further European integration.

While the governing Conservative party is debating whether the UK should leave the EU altogether, the challenge for Labour is rather that its approach to the EU should not make it vulnerable to the charge that it will fail to stand up for UK interests.

Mr Brown made it clear that the force of the Eurosceptic campaign in the UK meant that Labour could not afford to set itself up as an unmitigated supporter of the EU.

However, the main item on the agenda for these trips is monetary union. The French and German governments want a firm commitment from Mr Brown that a Labour government would take sterling into a single currency in 1999.

He has firmly resisted such a pledge, for fear that it would cause damage to Labour's electoral prospects. He reiterated that Labour favours monetary union but also stressed the obstacles to joining.

He also made abundantly clear that Labour could not at the moment contemplate taking sterling back in to the European exchange rate mechanism as a precursor to participating in a single currency. The political dangers for Labour in such a commitment appeared to be recognised in Paris and Bonn.

But Mr Brown stressed that he wants to be able to in a position to join in 1999. Probably the most controversial public statement he made on his Paris visit was that "it would be good if Britain were in a position to make that sort of decision".

That of course has uncomfortable implications for his Labour colleagues. It reinforces his determination to keep public borrowing under control – and will lead him to become ever tougher in refusing public spending requests.

For the next few months therefore, rightwing governments on the continental mainland are likely to remain a friendlier audience for him than the Labour brothers.

MPs call for demerger of airports group

By Michael Skapinker, Aerospace Correspondent

The House of Commons transport committee yesterday called for BAA, the airports group, to be broken up, saying London's Heathrow, Gatwick and Stansted airports should not be run by the same company. BAA's shares fell 17p to close at 507p after publication of the report.

The transport committee said it recognised that Stansted, to the north-east of London, could not have been developed as rapidly as it had been without the profits from Heathrow in west London and Gatwick to the south-east of the capital. But it said that if Heathrow were owned by a separate group from Stansted and Gatwick, the two companies would have a greater incentive to develop all three airports.

The committee called on the Monopolies and Mergers Commission, which is conducting a review of BAA, to re-examine whether the group should remain "the monopoly provider of airport services in the south-east [of England]".

BAA, which also owns Glasgow, Edinburgh, Aberdeen and Southampton airports, rejected the recommendation, saying the MMC had almost completed its review and was unlikely to reopen the issue of placing Heathrow under different ownership from Gatwick and Stansted.

Mr Des Wilson, BAA public affairs director, said: "If we were just in a domestic business you could possibly say that we are a monopoly. But we are involved in a highly competitive international business. In many ways our airports are complementary. It was the success of Heathrow that enabled Stansted to be built."

The committee also recommended that Heathrow's two runways be used for both landings and take-offs, a suggestion which infuriated environmentalists. At present, one runway is used for landings and the other for take-offs. At 3pm, they change around, giving neighbourhoods under the flight paths a period of quiet each day.

Mr Dermot Cox, chairman of the Heathrow Association for the Control of Aircraft Noise, said: "We will fight any such proposal to the end." BAA said it was also opposed.

Mr Wilson said BAA was interested in a proposal from the committee that Heathrow landing charges be increased, with the extra revenue to be spent on the environment.

The committee also said it had not ruled out the idea that an airport could be built in the Thames Estuary.

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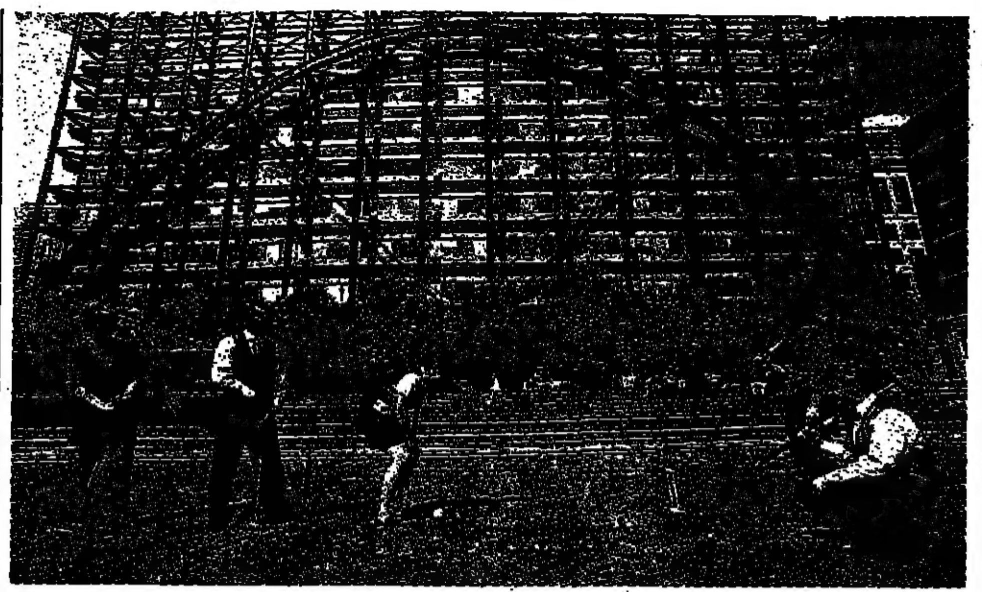


A team from league sponsors Corney & Barrow – the restaurant chain – launches the Golf Croquet season of matches among City firms in Exchange Square behind Liverpool Street Station

Campaign launched to promote services in US

By Stefan Wagstyl, Industrial Editor

Mr Ian Lang, the trade and industry secretary, is today due to launch an export promotion campaign for UK service industries in North America – the first such drive aimed at the sector.

The two-year £2.5m ($3.8m) campaign will focus on supporting small and medium-sized companies in four areas – film and television, design, information and computer services, and services for US companies planning investment or trade in Europe.

Officials plan to spend £750,000 a year supporting export efforts with advertisements, seminars and a campaign on the Internet. The department will also host a conference and exhibition in Santa Clara, in California's Silicon Valley, next year with a budget of up to £1m.

The campaign is an extension of a three-year campaign called North America Now, launched in 1993, during which exports of goods to North America increased from £13.8bn in 1992 to £20bn last year. Officials hope they can achieve a substantial increase in exports of services, which totalled £10bn in 1994, the latest year for which figures are available.

Britain is the leading exporter of services to the US, with a share of 13.4 per cent of imports in 1994. But since imports account for less than 3 per cent of the US services market, officials believe the opportunities are "enormous". The campaign follows a study of the North American market by the management consultancy arm of KPMG, the accountants. The study found that smaller companies would benefit from help.

Prince to launch 'affinity' credit card

By Diane Summers, Marketing Correspondent

Prince Charles is to launch his own branded credit card – the latest money-raising product in a portfolio which already spans royal biscuits, bone china, blended teas and bath salts.

The credit card, which is being operated by Mastercard, the international credit card consortium, and MBNA, the US bank, will be a so-called "affinity" card, aimed at attracting people interested in the prince's charity. Each time the card is used, Prince Charles's charity for young people, the Prince's Trust, will receive a donation.

Leaflets launching the card, with an application form, are to be handed out to the 145,000 people attending the "Mastercard Masters of Music" concert for the Prince's Trust at a huge rock concert in London's Hyde Park on June 29.

The card will carry the Prince's Trust logo of a crown and royal plumes. Over 400 organisations, including charities, political parties and professional organisations, have their own affinity cards. About 25p for every £100 spent on cards typically goes to the cause, plus a £5 donation when an individual initially signs up for the card.

The Prince's Trust specialises in providing disadvantaged young people with support and advice in starting up their own businesses.

UK NEWS DIGEST

Row grows over Korean project

Mr Michael Forsyth, the Scottish secretary, yesterday embarked on a flag-waving tour of the Far East, amid Welsh fears that he might attempt to "poach" a possible inward investment project by LG, the Korean electronics company.

LG – formerly called Lucky Goldstar – was reported earlier this month to be on the verge of announcing plans to set up a combined semiconductor and consumer electronics plant in Newport, south Wales - an investment of more than £1bn. ($1.52bn) creating up to 4,000 jobs. The Korean company reacted angrily to the report, carried by the BBC, and said that it was not expecting to make an announcement for several weeks. Welsh Labour MPs claimed the report could cost Wales the huge investment project.

James Buxton and George Parker

Jersey offers limited liability

Jersey yesterday published a draft law designed to allow professional firms to register on the island as limited liability partnerships. The option would be restricted to "businesses of stature". Candidates will have to set aside £5m ($7.6m) to compensate creditors should the partnership fail and pay a £10,000 registration fee – and convince the Jersey authorities of their "status" and "integrity".

If the firm does fail and is unable to produce the £5m its limited liability status would lapse and the personal assets of its partners would immediately be exposed to the threat of legal action. Jersey also indicated yesterday that, as well as inquiries from firms of accountants, legal firms had also shown an interest in the option – and that there had been approaches from accountants in the old commonwealth.

Jim Kelly, Accountancy Correspondent

Eurostar 'specials' launched

Eurostar, the high-speed Channel tunnel train company, plans to launch "shopping specials" in the summer, taking passengers on day trips to low-cost hypermarkets on the continental mainland where duty on drinks and other items is much lower than in the UK. The company, which will be taken over on June 1 by London & Continental Railways, the consortium which is to build the £3bn ($4.56bn) Channel tunnel rail link, also plans to stock a range of goods at its Waterloo terminal in London on which it will take no profit margin.

These represent parts of a marketing initiative launched yesterday and aimed at doubling passenger numbers to more than 6m this year and to 30m when the high-speed rail link opens in 2003. At present the London to Paris trains are on average only 60 per cent full while London-Brussels are only 30 per cent full.

Charles Batchelor, Brussels

Consumer spending rises

The UK's biggest banks lent more money to consumers in April than in any month for five years, providing further evidence of the growing momentum behind consumer spending. The British Bankers' Association reported a £566m ($860m) rise in consumer credit last month, more than double the increase seen in April last year. Within this total, credit card lending was also well up on last year.

Lending by banks and building societies – mutually owned home loans and savings institutions – as a whole rose by £4.2bn in April, the lowest figure since last November. Bank and building society deposits also rose relatively modestly, although the annual rate of increase in the broad money supply measure M4 edged up to from 9.9 to 10 per cent.

Motoko Rich and Robert Chote

Sinn Féin plays down prospect of IRA ceasefire

Financial Times Reporters in London and Belfast

The UK government faced a twin threat yesterday to its preparations for all-party talks when the Ulster Unionists, the largest pro-British party in Northern Ireland, threatened to withdraw support from the Conservatives and Sinn Féin played down prospects of an IRA ceasefire.

Mr David Trimble, the UUP leader, warned Mr John Major – the UK prime minister – that he could not count on Unionist support at Westminster if he made further concessions to republicans to ensure their participation in the negotiations which begin on June 10.

Mr Gerry Adams, president of Sinn Féin, the IRA's political wing, said his acceptance of the six principles of non-violence set down by former US senator George Mitchell had no bearing on any ceasefire decision.

Both warnings were made as the campaign for the May 30 elections to a forum for Northern Ireland gathered pace.

Both governments will meet today in London to assess progress in a full-scale session of the intergovernmental conference, led by Sir Patrick Mayhew, Northern Ireland secretary, and Mr Dick Spring, the Irish foreign minister.

Mr Trimble said his party was "alert to the danger of further pressure on John Major to once again dilute his position".

"Any backsliding by the prime minister on the twin issues of the ceasefire and decommissioning would be regarded as a fundamental breach of faith," he added.

Mr Trimble's threat coincides with rumblings of a rebellion among Tory MPs anxious that Mr Major does not yield on the basic issues of a ceasefire and arms decommissioning in his attempt to ensure progress at the talks.

With their majority down to one, Conservative business managers do not take such threats lightly. However, the government has been told by the opposition Labour party that it can count on its support on Ulster issues, while the Democratic Unionist party denounced Mr Trimble's statement.

Mr John Bruton, the Irish prime minister, welcomed Mr Adams's remarks on the six principles. However, he reiterated that both Dublin and London insisted on a ceasefire as a prerequisite for Sinn Féin's admission to the talks.

Launching its manifesto for the election which will select negotiators for the talks, Sinn Féin called for an agreed timeframe for the talks, and demanded that no party should have a veto over progress.

The manifesto accused Mr Major of selectively using the Mitchell principles to exclude Sinn Féin from the talks.

Inmetco's three furnaces plus its existing recovery operations will be able to process 2,500 tons of spent NiCad batteries a year

A battery bonanza

Bernard Simon reports on an initiative to recover nickel-cadmium involving 6,000 retailers across the US

As the recycling arm of Inco, the western world's biggest nickel producer, International Metals Reclamation (Inmetco) is constantly on the look-out for unwanted items from which it can recover the silver-grey metal used to make stainless steel.

So Inmetco, located on the site of a disused steel mill near Pittsburgh, Pennsylvania, was eager to do business two years ago when the newly formed US Rechargeable Battery Recycling Council (RBRC) came looking for a recycler of spent nickel-cadmium (or NiCad) batteries.

There was one snag, however. The council was willing to do a deal only if Inmetco would recycle the batteries' toxic cadmium cells as well as their nickel. The result was a five-year contract and the world's first integrated NiCad battery recycling facility.

Inmetco officially opened its cadmium recovery plant in March. Once teething troubles are ironed out, the facility's three furnaces plus Inmetco's existing nickel recovery operations will be able to process 2,500 tons of spent NiCad batteries a year.

For its part, the council is preparing an ambitious campaign to encourage users of the growing array of devices that need NiCad batteries, from computers to cordless power tools, to return their spent batteries for recycling.

If all goes according to plan, more than 6,000 retailers in 30 US states will participate in the council's recycling programme by mid-1996. The proportion of NiCad batteries returned for recycling or disposal in hazardous-waste landfills would climb from about 15 per cent now to 70 per cent by early next century.

Inmetco's confidence that business will snowball is reflected in the cadmium-recovery plant, which has enough space for another 13 furnaces. Dick Hanewald, Inmetco's president, forecasts that the plant's annual throughput could quadruple to 10,000 tons over the next four to six years.

NiCad batteries owe their popularity to their ruggedness and long life. In their industrial, vented-cell form, the batteries are used as a back-up power source, for instance, in railway carriages and signals.

But the biggest growth is in demand for the smaller, sealed-cell batteries used in cordless electrical devices, from cellular phones to medical monitoring equipment.

Surging demand has raised concern over the disposal of spent batteries. Cadmium, which vaporises at a relatively low temperature, is highly toxic when ingested. Workers at Inmetco's cadmium recovery plant are required to wear respirators.

Inmetco starts by separating the batteries' cadmium and nickel cells. The cadmium is boiled until it vaporises, with the condensed vapour collected as virtually pure, silver-grey cadmium shot. This is sold to the US subsidiary of Sweden's Saft, one of the biggest NiCad battery makers.

Nickel from the batteries is combined in a rotary hearth furnace with nickel-bearing mill scale, flue dust, shavings and other waste that Inmetco collects from stainless steel mills. They emerge as nickel, iron and chromium-bearing ingots, known as "hogs" or "pigs", that are returned to the steel mills as raw material.

Five leading NiCad battery makers – Saft, Japan's Sanyo and Panasonic, Varta of Germany and Florida-based Energizer – joined forces to set up the council in early 1994. About 175 appliance manufacturers, such as Motorola, AT&T and Black & Decker, have signed on as "licensees" to help finance the recycling campaign.

The council began work in earnest last year after the US Environmental Protection Agency decided that NiCad batteries destined for recycling would no longer be required to comply with costly, time-consuming restrictions on the transport of hazardous waste.

About 27 states have so far endorsed the new rules, clearing the way for the council to launch a revitalised battery collection campaign later this month.

Public education will form a big part of the drive. "Many households don't understand that their cordless device contains a nickel-cadmium battery," says Kim Kelley, the council's president. The council has signed up Richard Karn, who appears on a popular TV home-improvement show, as its "celebrity spokesman".

The council provides participating retailers with battery collection boxes which from this month will carry Karn's picture. The boxes also come with a United Parcel Service authorisation, which allows a UPS driver to pick them up without extra paperwork.

The council has set up a computerised tracking system that will enable it to take the initiative in replacing collection boxes.

A number of variations on the council's programme are already in operation. Compaq Computer offers to send owners of its PCs a postage-paid envelope, addressed to Inmetco. Compaq also pays Inmetco's recycling fee of about 40 cents per lb.

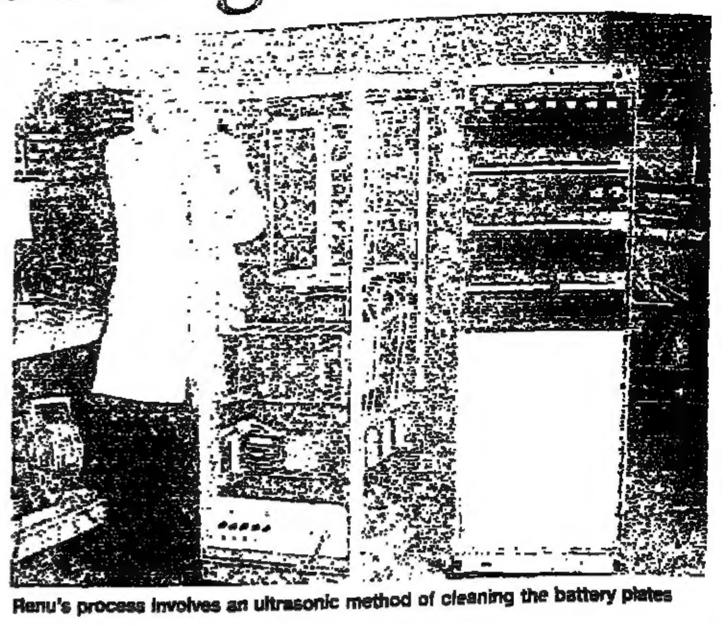
Inmetco itself offers a similar service to larger NiCad battery users, such as hospitals, police and fire stations, and appliance service centres. It sends out postage-paid cartons to about 500 customers a year, charging $19.95 (£13) for each container. The fee drops to $17.95 for bulk orders.

The council was initially created to allay battery makers' fears of tighter regulatory controls, including threats of a ban on NiCad batteries. Its recycling proposals have succeeded not only in putting those fears to rest, but in replacing government controls with attempts at a more market-oriented solution.

As Hanewald puts it: "Command and control are slowly giving way to an attitude of: how do we comply in the most intelligent way possible at the least possible cost."

Andrew Baxter reports on a cleaning service which reconditions batteries and extends their use

Refreshing approach to a longer life



Renu's process involves an ultrasonic method of cleaning the battery plates

At the end of their working lives, the batteries handled by Chet Durda's company are disposed of in compliance with all the official guidelines, but some interesting things happen to them along the way.

Durda is founder, president and chairman of Phoenix-based Renu International, which has developed and commercialised what it claims is a unique technology for "refreshing" or reconditioning rechargeable nickel-cadmium (NiCad) batteries used in two-way mobile radios and cellular phones.

The process involves an ultrasonic method of cleaning the battery plates, to remove the contaminants that build up during use. "A typical battery would have a charge/discharge life of 400 cycles," says Durda. "By cleaning up the contaminants you can extend it to 1,000 to 1,200 cycles."

Durda first began looking at ways to refresh NiCad batteries in 1985, but it took several years to perfect the technology and some trial and error to find the best way to commercialise it.

Since the mid-1990s, Renu has been operating a rotating service for customers, initially selling a batch of clearly identifiable rechargeable batteries to them, then picking them up for reconditioning every six or 12 months.

The customer receives up to 48 months of guaranteed battery service, and the batteries will, on average, be reconditioned three or four times before Renu disposes of them at its own cost.

Effectively, Renu is providing an extended battery management service, which Durda says provides a much lower-priced alternative to "in-house" battery management.

So far, the service has appealed mainly to US emergency services and municipalities for their two-way radio systems. Because lives often depend on their use, the batteries tend to be better quality than those used in cellular phones.

Durda sees steady growth prospects from this sector for Renu, but is now "very much excited" by the much larger cellular phone market.

Five years ago, he says, the general quality of batteries and cells used in cellular phones was unimpressive, and there are still many that are less than ideal. But he expects the quality and value of these batteries to improve – just as happened in two-way radio – which would make a battery reconditioning service more worthwhile.

Renu has developed all its machinery and software, and invested heavily in developing bigger, faster reconditioning machines. The latest Mark 8 computer-controlled model takes an average of two hours 10 minutes to refresh 256 units, compared with the seven hours that one of Renu's earlier machines was taking for 64 units.

The company is now expanding fast, with reconditioning sites planned for Chicago, Atlanta and – possibly – Buffalo. A reconditioning machine is also being sent to Canada.

Overseas, Renu plans to have outlets "throughout Europe", says Durda, and decisions on expansion have either been taken, or are close, for France, Germany and the UK.

In the UK, Renu International UK, a separately owned company, was recently set up as the proposed distributor, and aims to have a Mark 8 machine running somewhere in the UK by the end of the year. The most likely location will be just outside London, says Murray Richards, a director of the UK company, which has already established contact with police forces and transport operators.

Although the current focus is on NiCad batteries, Renu's process works better on the newer and increasingly popular nickel metal hydride (NiMh) batteries, says Durda. It is also applicable to other innovative battery types such as lithium ion and polymer batteries.

The Phoenix-based company is also starting to develop its own batteries. Production is due to begin in October of what are said to be the world's first self-conditioning, self-cleaning rechargeable batteries, also for the cellular and two-way markets. The batteries use a standard charger, are equipped with an LCD "fuel gauge" indicator, and will be available with NiCad or NiMh cells.

Television/Christopher Dunkley

Between a rock and a hard place

Ever since the coming of ITV in 1955 and the ending of the BBC monopoly British television executives have been caught between Scylla and Charybdis, or, as most of them would doubtless say today, between a rock and a hard place. On the one hand are the ratings which, with the rapidly increasing quantity of television, have become more and more vital to programme survival, whatever the channel. On the other hand is the scorn of much of the British middle class, and especially the intelligentsia, the very bit of society from which most television executives come, and which contains most of their family and friends, a sector which tends to ridicule television for what is seen as its glitz and shallowness and above all the very populism which gives rise to the ratings.

Executives in television have reacted in various ways. Even more than in most industries they have clustered together to talk shop and provide mutual support. (Thanks to their social lives many watch startlingly little television; much less than the national average.) They band together in clubs with grand names and give each other lots of prizes. And recently they have taken to whistling defiantly amid what even they presumably see as the encircling gloom, though they would abandon their Boss coats and BMWs rather than admit this in public. Occasionally you find one who genuinely believes that not only the quantity but even the quality of television programmes is higher now than it used to be.

The head of programming at BSkyB is one. In the FT's letters column last Saturday he argued, as so many of us have over the years, that the coming of ITV and BBC2 improved the quality of television. He also asserted that the arrival of Channel 4 improved quality whereas many of us would say that it served mainly to increase diversity. However, what he so noticeably omitted was any claim that satellite broadcasting, the chief increaser of quantity, had done anything for programme quality. A more interesting argument was put up recently by Michael Jackson, controller of BBC2. Speaking at one of those clubs, the Royal Television Society, he began by saying that we live in a promiscuous age, meaning that there was no fixed centre any more, no received set of values or authority: "There's a feeling that the BBC isn't any longer where it was, at the centre of things. It doesn't carry the same weight. The programmes aren't as good. And television in general is seen as trivial".

Then, having set up this dangerously sturdy straw man, Jackson attempted to knock him down, claiming that public service television is, in many ways, better today than in any former golden age. He picked out programmes from a 20-year-old *Radio Times* and argued that, in various respects, today's were better – a game which can be played by any number with any outcome you care to pre-ordain. But does the general argument stand up? In some respects it does: anyone who has read this column regularly over the past 25 years is familiar with the assertion that programmes about politics, wildlife, recent history (the cold war, Watergate, Jugoslavia) and some other matters have improved. But these tend to be low-rating, special-interest programmes and, even if there are more of them now – and I suspect there are – the proportion is smaller than it used to be, and they are more difficult than ever to find amid the plethora of trivia.

It is the bedrock of television entertainment which is more questionable. Take chat shows, and talking heads generally: does anyone really think that this element is better today than 20 or 30 years ago? The opening item on the first edition of *Tonight With Richard Madeley And Judy Finnigan*, the "tough" interview of O.J. Simpson, was merely the exception which proved the rule, that rule being that this is a PR show for air-heads. On second thoughts the O.J. item was not even an exception to that rule. The studio interviewing on the original *Tonight* programme was streets ahead. It would hardly be fair to compare *The Gaby Roslin Show* to John Freeman's *Face To Face* (a series often copied, most recently by Jeremy Isaacs, but not yet surpassed) but surely fair enough to compare it with *Parkinson* . . . except that there is no comparison. Watching Parky in a one-off talking to George Best on BBC2's *Best Night* on Sunday you suddenly remembered what a proper interview looked like.

Or consider sitcoms. There are certainly scores more today than there used to be, the newest being Channel 4's *Life After Birth*, yet another in the endless succession of *Gosh, Look, I'm Sharing A Flat With My Grandmother* comedies. There is an ineradicable belief in British television that merely by cramming oddly assorted people into a single living space you create the most hilarious comedy. Although *Life After Birth* (in which Alison has a baby and Judith has a spreadeagled boyfriend tied to the bed) is the 369th sitcom since *And Mother Makes Three* to disprove this theory, no one in television has noticed. When you point out that Galton and Simpson with *Steptoe And Son* and Johnny Speight with *Till Death Us Do Part* look like Shakespeare, Marlowe and Wilde alongside today's sitcom writers, telly execs groan but cannot refute the point.

It is hard to avoid the feeling that relativism is at least partly to blame for what is happening and that Jackson gave the game away in his opening remarks: people in television no longer have the courage to stand up and say that A is better than B and will therefore be preferred. Ratings are what matter most, and if laddish studio chat about soccer and lager, or girlie talk about lipstick and willies are considered fashionable then we shall have *Fantasy Football League* and *Pyjama Party* and *The Girlie Show* and *The LADS*, no matter how trashy and trivial they make the whole of television seem. That is not to say that everything on television is getting worse: a claim that is just as absurd as the notion that 900 digital channels will somehow improve programme quality.

It is to say that today's TV executives do not seem to share the ideal of their predecessors which was to go as far as possible towards combining quality and popularity. That is what characterised the best of the output during the days of the so-called duopoly, and what made much British television better than what was seen in many other countries. Today they seem content to pursue quality with a minority of specialised programmes while going for popularity, without quality, in the bulk of the output. It is a policy which makes television as a whole feel cheap and nasty, and which seems likely to lose it the few serious friends it once had.

Mike Leigh's 'Secrets and Lies' won the Palme D'or with Brenda Blethyn (right) named Best Actress

British triumph at Cannes

Yesterday film-maker Mike Leigh became a member of that rare, endangered species: a spokesman for Britain who returns from Europe in triumph.

His Palme d'Or for *Secrets and Lies* and Brenda Blethyn's same-film prize for Best Actress – predicted on these pages two weeks ago – made Cannes '96 a formidable UK victory. Since the movie also collected the International Critics Prize, open to all films both inside and outside the competition, it was effectively a wipe-out of the opposition.

Leigh's film opens in Britain this week, with the kind of timing publicity folk dream about. More on its charms tomorrow.

Elsewhere, the last days at Cannes were devoted to proving that you can make cinema from absolutely anything and not just the title material in – to name one late surprise in the sideshows – Italy's *Celluloid*.

Here director Carlo Lizzani recreates the making of that postwar classic *Rome Open City* in a film not overcome by reverence, though it trips up once or twice on bio-pic banality. Rossellini, Fellini and Magnani all bustle through – or their actor-lookalikes – and Rome screenwriter Sergio Amidei is played at full, scene-stealing tilt by Giancarlo Giannini.

But as well as celluloid, Cannes proved you can make films from such unlikely matter as car crashes, philosophy teaching and loss of employment in Helsinki.

David Cronenberg's *Crash* is a brave bid to film J.G. Ballard's sci-fi vision of a world hooked on the thrill of highway collisions. "Auto-destruction" takes on new meaning – and so does auto-erotism – as James Spader and Holly Hunter lead the sex-obsessed car freaks driving their Porsches to immolation before adding intimacy to injury right there amid the debris.

This sort of thing will give the AA whole new headaches. I am less sure that it will give a significant new direction to cinema, let alone to the erratic career of the director of *The Fly* and *Naked Lunch*. We begin by gasping at the candour and originality. We end by giggling at the repetitive bonkings and the earnest fetishising of bandages, leg braces and traction rigs. For reasons best known to their psychotherapists, the Cannes judges gave the film the prestigious Special Jury Prize.

Catherine Deneuve as a suicidal lesbian philosophy teacher is another potential mind-boggler. But in André Téchiné's *Les Voleurs* her romance with a delinquent girl (Laurence Cote), who in turn is pursued by troubled cop Daniel Auteuil, is enthralling. Téchiné, a Cannes regular, constructs a puzzle movie about love, crime and change-of-life: one which creates patterns in human faces as intricate as the ones in a railyard heist or a snowy mountain hideaway.

Auteuil deserved a Best Actor award for this film but won it instead for Jaco Van Dormael's *The Eighth Day*: a lump of dreadful schmaltz about disability, already reviewed here, in which he shared the prize with co-star Pascal Duquenne.

The real late revelation at Cannes was Aki Kaurismaki's *Drifting Clouds*. Concussed by this Finn's recent "comedies", usually starring that resistible rock band the Leningrad Cowboys, we had forgotten how good he was – and how much funnier – when tackling straight drama.

Here, as in *Ariel* or *The Match Factory Girl*, Kaurismaki makes a plot about nothing seem a plot about everything. When a husband and wife both lose jobs at the same time – she a head waitress in a fusty restaurant, he a bus driver – they have a brief period of moral collapse before setting their faces determinedly to the future.

Kaurismaki has a genius for the literal. Collapse means collapse: the husband twice falls over like a tree onto the floor as if actually poleaxed by depression. Setting their faces means exactly that: turning profile-on to the camera while Kaurismaki dwells on their pawky, radiant, lived-in features – you realise how long it is since you saw a real face after months of exposure to Hollywood make-up – and tunes in to their exquisite, Pinteresque dialogue. Here was the rightful winner of the Special Jury Prize.

All told, it was hard to remember a better Cannes or one in which so few films unspooled to the sound of banging seats. During the last weekend the only Golden Walkout contenders were the Tavianis' *Elective Affinities* and Rolf De Heer's *The Quiet Room*.

In the first, the Italian brothers who once stormed Cannes with *Padre Padrone* – what ever happened to them? – turn Goethe's 200-year-old novel of criss-cross love affairs into a lifeless costume parade, with Isabelle Huppert and Jean-Hugues Anglade struggling to act through the corsetry. In De Heer's movie, an Australian tot goes mum before Mum and Dad, as if she has just seen *Persona* on the Disney Channel. Is it a comedy? A tragedy? A psychodrama? No, just a bore: from the once promising director of *Bad Boy Bubby*.

But duds were few, delights were legion. Next year's festival cannot hope to equal this one but is certain to try. It will be the 50th Cannes and already they are building the palm-high birthday candles, summoning the Ingmar Bergmans and Spielbergs, and helping to ensure that hotels raise their already vertiginous prices into the ionosphere.

Nigel Andrews

Theatre

Sylvia: a dog's play

No tale of adultery is more cute or more painless than that told in A.R. Gurney's play *Sylvia*, which has snuffled its funny, mild and escapist way into the West End. Subtitled "a romantic comedy", *Sylvia* is sweet enough to give us adultery without sex or even the desire for sexual fulfilment. The delectable Zoë Wanamaker returns to the West End as its eponymous heroine, who comes so close to breaking up Greg's 22-year-old marriage to Kate. How can she compete with this? For *Sylvia* is about the love of a menopausal married man for a dog.

Sylvia is all about what, in psycho-speak circles, they call projection. "I wish I knew more about your former owner," says the doting Greg. The canine Sylvia replies, "Second owners always want to know that. I'm a mystery. I'm what's known as The Other." Yes, they converse in words. And they always, always understand each other. "I love you," she tells him with archetypally doggy devotion. "Nearer my God to Thee."

Sylvia is set in New York – where it had its premiere 14 months ago – and it is one of those anodyne New York fantasies in which the big city is as idyllic as Arcadia. Even Kate and Sylvia understand each other. "Now you should know that all you are is a male menopausal moment," Kate tells her rival. Greg is Robin "Poldark" Ellis , who is like the human beings in classic Disney films – i.e. ever so much duller than any animal. But Kate, the languid and saucer-eyed Maria Aitken, gradually becomes so vulnerable and funny that she seems, well, almost doglike. (You can imagine a sequel in which Wanamaker gets to play the wife and Aitken turns up as an invasive Afghan.) Michael Blakemore directs, by the way.

It is hard to think that Wanamaker won't soon grow bored playing so trite a role. Until she does, however, it is delectable to watch her sniffing at lamp-posts ("'Scuse me, I have to check up on my messages"), turning from sneakers and dirty jeans, after being washed and cleaned, into a beribboned and high-heeled French cocotte, and straining at the leash when on heat ("Jesus! Get a load of that Dalmatian"). One of the play's few bizarre touches is to have Neil McCaul jump genders by playing the supporting roles of Tom, Phyllis and Leslie. He misjudges all three, but does that matter? Indeed, when a dog is the most amenable character on stage, it positively helps if some of the humans seem distorted.

I cannot help feeling that Gurney misses a trick by not having Sylvia and the humans sometimes talk at cross-purposes. It would be poignantly true to the ways of dog to man and man to dog if both species addressed each other ardently but with mutual misunderstanding, the way that Brian Friel, unforgettably, has the English and the Irish talking to each other in *Translations*.

But that is to wish *Sylvia* was a deeper and more serious comedy than it wants to be. All *Sylvia* wants is to be adorable, to bury its fond head in your lap and to be patted and told how good it is, even if it isn't.

Alastair Macaulay

Apollo Theatre, London WC1.

Plagued by Macbeth

When the Royal Shakespeare Company begins to work to its new schedule next year – with a second regional residency in Plymouth and fewer openings in its shorter 26-week London season – it will have to strive correspondingly harder to cover all areas of its existing repertoire. For instance, there is no need to stage *Macbeth* only two years after its last RSC production, still less to stage it in as dull a form as Tim Albery has done.

I'm not familiar with Albery's work as an opera director, but his *Macbeth* – with Stewart Laing's stark, unhelpful set and Mimi Jordon Sherin's opulent, unnecessary lighting design – has the appearance of a modern opera production of the worst kind, in which look overrides sound and sense. If there were signs of an intelligent thematic vision, one could offset against it puzzlers such as "withered and wild" witches who resemble Victorian widows in their black dresses, reciting their infernal recipe without the slightest sign of cooking it up. However, the only criterion in evidence throughout is that of creating elegant images.

Albery has instructed his cast to go for slow, resonant deliveries. Roger Allam as Macbeth dutifully does so, but without emotional or physical reinforcement his performance soon grows maddeningly tedious. Brid Brennan fares worse as Lady Macbeth, sounding as if she were taking part in a school recital competition. Philip Quast's Banquo and Colum Convey's Macduff grow close at times to striking a workable medium, but then flounder again in the morass of style-over-content. Adrian Schiller as the Porter is a welcome relief.

The moments at which any degree of genuine engagement occurs seem to be aberrations from the hollow vision imposed by Albery. One cannot see why he might have *wanted* to direct *Macbeth*; his ideas are entirely cosmetic: the apparitions projected onto a screen, a cyclorama projection of a burning landscape which repeatedly changes colour during the final phase of the play.

The Lord sent a plague of *Macbeths* upon the land late last year. This production is more sterile than any of those, including the Mark Rylance farrago. It is full of light, half full of sound, quite devoid of fury and signifies less than nothing.

Ian Shuttleworth

At the Royal Shakespeare Theatre, Stratford-upon-Avon (01789 205301).

INTERNATIONAL ARTS GUIDE

■ BERLIN

DANCE
Staatsoper unter den Linden
Tel: 49-30-2082861
● The Sleeping Beauty: a choreography by Nureyev after Petipa to music by Tchaikovsky, performed by the Ballett unter den Linden. Soloists include Schroeder, Stolz-Franke, Händler and Stengel; 7.30pm; May 23, 25, 26 (7pm)
OPERA
Deutsche Oper Berlin
Tel: 49-30-3438401
● Aida: by Verdi. Conducted by Stefan Soltesz and performed by the Deutsche Oper Berlin. Soloists include Ute Walther, Marcia Bellamy and Friedrich Molsberger; 7pm; May 25

■ BONN

DANCE
Oper der Stadt Bonn
Tel: 49-228-7281
● Don Quixote: a choreography by Valery Panov to music by Minkus, performed by the Ballett der Oper der Bundesstadt Bonn and the Orchester der Beethovenhalle. Soloists include Didier Gettliffe, Danilo Mazzotta and Vadim Bondar; 8pm; May 24, 26 (7pm)

■ CAPE TOWN

CONCERT
City Hall Tel: 27-21-4617084
● The Cape Town Symphony Orchestra: with conductor Bernhard Gueller and the Philharmonia Choir of Cape Town perform works by Mozart and Rossini; 8pm; May 23

■ CHICAGO

EXHIBITION
Art Institute of Chicago
Tel: 1-312-4433600
● Affinities: Chuck Close and Tom Friedman: this exhibition brings together the works of veteran artist Chuck Close and emerging artist Tom Friedman, demonstrating a link between the two artists who share an obsessive working method that results in highly complex surfaces; to Jul 28

■ COLOGNE

CONCERT
Kölner Philharmonie
Tel: 49-221-2040820
● Manfred, Op.115: by R. Schumann. Performed by Das Neue Orchester with conductor Christoph Spering, narrators Dietrich Fischer-Dieskau, Karla Siebecke and Dirk Schortmeier, soprano Susanne Behnes, bass Jochen Kupfer, the Madrigalchor Kerpen and the Mülner Kantorei Köln; 8pm; May 24
JAZZ & BLUES
Kölner Philharmonie
Tel: 49-221-2040820
● WDR Big Band: featuring saxophonists Klaus Doldinger and Johnny Griffin; 9pm; May 23

■ COPENHAGEN

MUSICAL
Gladsaxe Theatre Tel: 45-31676010
● Hans Christian Andersen Musical: by Flemming Enevold, to music by Sebastian. Directed by Flemming Flindt and performed by the Gladsaxe Teaterkor. The cast includes Flemming Enevold, Lise Nees, Nis Bank-Mikkelsen and Jesper Vigant; Mon - Fri 7.30pm, Sat 7pm; to Aug 3 (not Sun)

■ GLASGOW

OPERA
Theatre Royal Glasgow
Tel: 44-141-3323321
● Turandot: by Puccini. Conducted by Richard Armstrong and performed by the Scottish Opera; 7.15pm; May 23

■ HANOVER

EXHIBITION
Sprengel Museum
Tel: 49-511-1683875
● Sammlung Ann und Jürgen Wilde. Eine Reise nach Sardinien. Fotografien von August Sander, 1927: exhibition of 30 photographs made in Sardinia in 1927 by August Sander. Main themes of the photographs are architecture, landscapes and portraits; to May 26

■ LONDON

AUCTION
Bonhams Tel: 44-171-3933900
● The Adams Collection Part V: Important Renaissance Bronzes: the last of a series of sales featuring the Adams Collection, created by Sylvia Phyllis Adams. Highlights of this sale include the Hercules, attributed to Antico, court sculptor to the Gonzagas of Mantua, c. 1500; 6pm; May 23
CONCERT
St. John's, Smith Square
Tel: 44-171-2221061
● David Goode: the organist performs works by Schmidt, J.S. Bach and Reger; 1pm; May 23

■ MILAN

THEATRE
Teatro Carcano Tel: 39-2-55181377
● Play it again, Sam: by Woody Allen (in Italian). Directed by Antonio Salines and performed by the Teatro Carcano. The cast includes Antonio Salines, Adolfo Lastretti, Francesca Bianco and Fiorenzo Fraccascia; 9pm, Sun 3.30pm; to Jun 2 (not Mon)

■ MUNICH

CONCERT
Philharmonie im Gasteig
Tel: 49-89-48098625
● I Fiamminghi: with conductor Rudolf Werthen and pianist Stefan Vladar perform works by Rossini, Haydn, Mozart and Beethoven; 8pm; May 23

■ NEW YORK

AUCTION
Christies, Manson & Woods International, Inc.
Tel: 1-212-546-1000
● Important American Paintings, Drawings, Watercolors and Sculpture: one of a series of sales offering property from the estate of Edgar Scott, collected with his wife Helen Hope Montgomery Scott; 10am; May 23
Sothebys Tel: 1-212-606-7000
● 19th Century European Paintings, Drawings and Sculpture, and 'La Belle Epoque': a combination of two sales, including Alma-Tadema's "In the Corner of my Studio", paintings by Ingres and Sorolla y Bastida, and Genovesi's sculpture "The Three Graces", modelled after Canova's statue of the same subject; 10.15am; May 23
EXHIBITION
MOMA - Museum of Modern Art, New York Tel: 1-212-708-9400
● Picasso and Portraiture. Representation and Transformation: exhibition surveying the portrait work of Pablo Picasso (1881-1973). Beginning with early studies from the artist's years in Barcelona, the exhibition moves through Picasso's life via intimate portrayals of his family, lovers and friends, including his childhood friend and later secretary Jaime Sabartés, the poet Max Jacob, Picasso's first great love Fernande Olivier, Olga Picasso, the artist's wife in the 1920s, and his last wife, Jacqueline; to Sep 17

■ PARIS

DANCE
Théâtre National de l'Opéra - Opéra Garnier
Tel: 33-1 42 66 50 22
● Coppélia: a choreography by Bart after Saint-Léon to music by Delibes, performed by the Ballet de l'Opéra National de Paris. Soloists include Gaïda, Le Gris, Martinez and Bourgeois; 7.30pm; May 23, 24
EXHIBITION
Musée Carnavalet
Tel: 33-1 42 72 21 13
● Les Russes à Paris: exhibition focusing on the French view of the Russian community in the 19th century; to Jun 30

■ ROTTERDAM

POP-MUSIC
Ahoy' Sportpaleis
Tel: 31-10-4104204
● Tina Turner: performance by the American singer; 8pm; May 23, 24, 25, 26

■ SAN FRANCISCO

EXHIBITION
SFMOMA - Museum of Modern Art
Tel: 1-415-357-4000
● Glenn Ligon: New Work: in this exhibition the African American artist shows two new series of works in tandem. A group of self-portraits as discrete canvases and pictures taken from the Million Man March in Washington this autumn create an encompassing screen of images; from May 23 to Aug 25

■ VIENNA

CONCERT
Musikverein Tel: 43-1-5058681
● Wiener Symphoniker: with conductor Claus Peter Flor and violinist Gil Shaham perform works by Beethoven and Bruckner; 7.30pm; May 23

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Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Edward Mortimer

Bosnia's fault lines

The US and Europe are both to blame for the country's partition. It started years ago and Dayton will not reverse it

During the negotiation of the Bosnian peace accords in Dayton last November, there was no love lost between Mr Richard Holbrooke, the US assistant secretary of state, and the UK negotiator Ms Pauline Neville-Jones. The airbase, it was suggested, was "simply not big enough for two egos of that size". So it is perhaps not surprising, now both are liberated from the constraint of representing their governments, that their disagreement has surfaced in public.

In Time magazine last week Mr Holbrooke alleged that "some important European officials are privately writing off Dayton's provisions and preparing the ground for de facto partition next year". That drew a sharp retort on this page from Ms Neville-Jones, who is now an adviser to Mr Carl Bildt, the High Representative in charge of implementing civilian aspects of the accords.

"Europeans," she protested, "are leading the effort to knit the country together again", by methods ranging from the dismantling of trade barriers to Mr Bildt's "determined policy" of destroying the power base of Bosnian Serb leader Mr Radovan Karadzic.

That is true. Mr Bildt is genuine in wanting the Dayton agreement "to succeed on its own terms" – in other words to preserve, or more strictly to establish, a single but decentralised Bosnian state. But his efforts to achieve this are frustrated at almost every turn – the latest example being the sacking by Mr Karadzic of Mr Rajko Kasagic, the Bosnian Serb prime minister whom Mr Bildt had cultivated.

Other examples of the rebuffs faced by Mr Bildt include:

- Whenever Moslem refugees attempt to return to their homes in Serb or Croat-held territory, they are either turned back or arrested and beaten, and in some cases killed.
- Mr Karadzic and other indicted war criminals continue to move quite openly about the country, in defiance of the international war crimes tribunal.
- The only independent radio station in the Serb-controlled part of Bosnia – Radio Big, broadcasting from Mr Kasagic's power base of Banja Luka – was briefly taken off the air on Monday, presumably to demonstrate that Mr Karadzic's writ runs even there.
- Elsewhere in the "Serb Republic" and the Croat region there are no independent media at all. Even in Sarajevo, state radio and television are used as a propaganda arm by the Moslem ruling party.
- The city of Mostar remains partitioned between Croats and Moslems. The German administrator appointed by the EU has fled the city.

In short, neither Mr Holbrooke nor "important European officials" need wait till next year for the de facto partition of Bosnia into three ethnically homogeneous entities. The Serb and Croat entities have existed since 1992, and the Moslem, as opposed to multi-ethnic, character of the third is becoming more pronounced.

All these developments are reinforcing that state of affairs; and for all of them the US must bear a large share of the blame. They are happening under the nose of the 55,000-strong, Nato-led Implementation Force (Ifor), which includes 18,000 Americans and is under the overall command of a US officer.

Everyone applauds the success of this force in implementing the military annex to the Dayton agreement. The forces of the warring parties have been separated, and heavy weapons have been withdrawn. That shows how seriously the parties take Ifor's military clout and the power of the US. But in itself that success consolidates partition. It does nothing to reverse it.

The clauses of Dayton that purport to establish or re-establish a single Bosnian state are not backed by Ifor's military clout, and therefore are not taken seriously by the parties. Ifor's commanders resolutely refuse to get involved in police tasks such as ensuring freedom of movement, apprehending war criminals, or protecting refugees who return home.

In these circumstances neither the "Serb Republic" nor the Moslem-Croat federation (which exists only on paper) shows any sign of fulfilling their obligation under the accords to ensure a "politically neutral environment" for free and fair elections, which must be held by September 14.

Responsibility for election supervision lies with Robert H. Frowick, a US diplomat, representing the Organisation for Security and Co-operation in Europe. His deputy (also an American) has just resigned because a report he had drafted, indicating that conditions for holding the elections were far from being fulfilled, had been watered down.

Next month, Mr Frowick will almost certainly give the go-ahead for elections under the Dayton timetable. He is under great pressure to do so because the US regards the timetable as the most sacrosanct feature of the accords.

Thus the whole process is being driven by two US objectives: to preserve Ifor from any "mission creep" which might lead to US casualties such as happened in Somalia; and to ensure US forces can be withdrawn at the end of the year, as President Clinton promised Congress. And thus it is the US which is ensuring that Dayton preserves the de facto partition of Bosnia, and that no serious attempt is made to reverse it.

But that is a policy the US learnt from Europe. Dayton became possible only when the US accepted the essence of the European approach to Bosnia, which was to treat the ethnic "entities", especially the Serb one, as an irreversible fact of life, and to concentrate on adjusting the relations between them, including the precise allocation of territory. Indeed the starting-point of the Dayton talks was acceptance by all parties of the 51-49 territorial split between the Moslem-Croat federation and the "Serb Republic" – and this was taken directly from the last European peace plan.

All the rest is window-dressing. Both Mr Holbrooke and Ms Neville-Jones protest too much.

Reuter

Holding power: Radovan Karadzic (right) and Biljana Plavsic

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

European employers' body has cast shadow over efforts to achieve consensus on employment

From Mr Emilio Gabaglio.

Sir, I found the article "No strategy for employment" (May 20), by François Perigot, the president of the European organisation of employers (Unice), to be very negative. It not only casts a huge shadow over the employment pact exercise launched by Commission president Jacques Santer but it also appears to repudiate much of the common ground we have established together as European social partners. And it even attacks the idea that a search for consensus is worthwhile.

Of course finding this consensus can be very difficult – but what would have happened to Europe, and indeed to democracies in general, if that had been taken as a reason for not trying?

As recently as last October at the Social Dialogue Summit meeting in Florence, Unice did join the European Trade Union Confederation (ETUC) in saying in a declaration on the Essen employment process that "the social partners will continue and intensify their work at the national and European levels, and look to the public authorities to do the same and to closely involve the social partners in their efforts at the appropriate levels".

That is precisely what Mr Santer's pact for confidence and employment is doing and that is why we have to live up to our responsibilities and try to make the process a successful one. On some issues of substance, and again on the basis of past common statements, the ETUC can agree with Mr Perigot that competitiveness problems have to be addressed – and we have said so in relation to the pact – though the agenda has to be much broader than how social security is to be financed.

However, isn't arguing that competitiveness is exclusively a national responsibility, rather than also a shared European one, a sure way to undermine the integrity of the Single Market? And does Mr Perigot believe that the EU's macroeconomic guidelines have no influence on the European economy, and hence on the competitiveness of his member companies, and that he can therefore turn down the offer to be involved in the process by which these guidelines are formulated and reviewed – for this too is a part of the pact exercise?

For our part at least, the ETUC will be accepting the invitation of the Italian presidency to discuss all these issues with governments at a tripartite conference to be held in Rome early next month.

Emilio Gabaglio,
general secretary,
European Trade Union Confederation,
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Belgium

Toy industry committed to safety

From Mr David Hawtin.

Sir, Re Mr Bill Jordan's letter of May 11 concerning the Kader toy factory fire in Thailand, it is appropriate for your readers to be aware that the experience of the three years since then shows that, dreadful though the event was, it was nevertheless an isolated occurrence. Moreover, the world toy industry has made considerable efforts to ensure good working conditions in toy factories in Asia.

In January, the British Toy and Hobby Association published a code of practice based on long-standing working practices of many international manufacturers. It confirms the toy industry's commitment to standards that exclude forced labour and ensure working conditions in toy factories throughout the world are consistent with western practice and in the best interest of the workers themselves. These standards existed long before the approach of the World Development Movement; they have simply been made public by the code.

My association shares the movement's concerns that workers worldwide are safe. The association has recently published a "Fire prevention and emergency preparedness guide", in English and in Chinese, which has been circulated to association members for use in their own and subcontractors' factories.

Our members are required to follow a strict code of practice and have stringent safety guidelines. In the coming weeks we will be developing the framework for an independent committee that will deal specifically with any future complaints.

David Hawtin,
director-general,
British Toy and Hobby Association,
80 Camberwell Road,
London SE5 0EG, UK

Poor need no reminding of cost of water

From Mr Simon Trace.

Sir, Your article "Asia warned of need to act on water" (May 16) implied that a "user pays" principle is a new phenomenon. The truth of the situation for millions of people throughout Asia is that they already pay for water, with the poorest often paying the most.

Provision of a safe water supply close to people's homes is so poor in places such as Dhaka it is not uncommon for 10 to 15 per cent of household income to be spent on buying water from private vendors. WaterAid has records of private suppliers charging 25 times the rate the middle-class population pays to the local water authority per litre. Inevitably, the growing number of poor marginalised people are worst hit.

With 1.2bn people worldwide still lacking access to safe water, clearly the problem is an immense one that will not be solved by a panacea approach. The solution is not simply modernisation. Water supplies need to be extended to the ever-growing urban poor populations through low-cost and sustainable solutions. WaterAid, for example, promotes technologies which communities can afford and encourages them to manage that technology themselves, setting affordable tariffs which will cover the cost of maintenance and repairs.

The point made by Peter Rodgers, the Harvard University water expert, that people need to be educated that water is not free requires heavy qualification. Poor communities do not need reminding – they are already paying through the nose.

Simon Trace,
regional manager, Asia,
WaterAid,
Prince Consort House,
27-29 Albert Embankment,
London SE1 7UB, UK

Clinton rhetoric will not rid world of mines

From Mr David Bryer.

Sir, President Clinton's strong moral rhetoric on land mines ("Clinton to work for an end to land mines", May 17), though welcome, masks what is essentially a military-influenced decision. Contrary to Mr Clinton's fine words, his decision will set back the day when "children of the world can walk without fear of the earth beneath them".

Arguing that the US has somehow a "unique threat" to its security will hardly help us rid the world of the scourge of anti-personnel mines. It is not difficult to see how forces of military dictatorships or rebel warlords will argue that they, too, have a particular security situation that requires the use of anti-personnel mines.

The immediate destruction of the US's huge arsenal of 5m "dumb" mines is indeed welcome but the US's continued use of "smart" mines will still pose a danger to civilians. "Smart" mines are as indiscriminate as their "dumb" counterparts – they just have a shorter life in the ground. Switching western arsenals to the "smart" option only legitimises the use of anti-personnel mines.

Irrespective of the president's decision, Canada will bring together 40 states committed to a global ban at a conference in Ottawa in September. Many western states will be attending. Sadly, President Clinton will be conspicuous by his absence.

David Bryer,
director,
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274 Banbury Road,
Oxford OX2 7DZ

Confused view of London's advertising

From Mr Mathias M. von der Decken.

Sir, I read Mrs Marlene Bowman's letter (May 18/19), alleging widespread pornography in advertising in London, with concern. Usually pornography would be defined along the lines of "depicting a sexual act in an obscene fashion", of which I can find no evidence in London. Advertising there at most contains a provocative hint at sexuality.

It is the confusion of sexuality with pornography that is a danger to society as its repression breeds sexual ignorance with its well-known consequences, ranging from irresponsible sexual behaviour to sex crimes.

Modern society is increasingly broad-minded towards the most natural thing in the world, without which education on issues such as Aids and birth control would be unthinkable. Naturally, such changes in a society's thinking entail a greater acceptance of sexually-related themes in public. However, this is as little a process of decadence as naked native Africans are barbarians living in a permanent pornographic environment.

Even today, tourists travelling to Britain will be surprised at the relative puritanism displayed in public and I would advise Mrs Bowman not to leave the British Isles if she is lightly offended by a more liberal attitude towards sexuality.

Mathias M. von der Decken,
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CH-1844 Villeneuve,
Switzerland

US companies have proved remarkably resilient, says Tony Jackson

The survival of the oldest

In America's continuing debate on the downsizing phenomenon, fans of the process have come up with a standard defence. The massive job cuts that make the headlines, they say, are the work of big companies. But those are corporate dinosaurs, relics of America's industrial past. The small, dynamic companies that represent the future are still hiring.

It is usual at this point to invoke the Austrian economist Joseph Schumpeter. Capitalism, he said, is characterised by a "perennial gale" of creative destruction, brought on by changes in technology and markets. When corporations get to a certain age and size, the gale sweeps them away.

There is evidence that America's big old companies employ a smaller proportion of the workforce than 20 or 30 years ago. One reason is that they have the experience and deep pockets to apply the latest techniques in labour productivity. Since much of that productivity has been passed on in lower prices, their revenues have also tended to decline in relation to national output.

But by other measures, such as earnings and stock market value, the old corporations have proved astonishingly resilient. Take, for instance, the Dow Jones Industrial index. The 30 companies in it are on average 103 years old. The grandfather among them is the chemicals giant DuPont, founded in 1801 – unless you count Merck, which originated in 17th-century Germany. The youngest is McDonald's, a mere 41 years old, followed by Caterpillar, which is 68.

It might be objected that the Dow itself is an old-fashioned collection: designed for continuity, it is almost devoid of modern high-tech companies, and preserves such venerable crocks as Woolworth and Bethlehem Steel. But if we turn to the top US companies by market value – many of them Dow constituents – the story is not very different.

According to the latest FT500 list of the world's most valuable companies, compiled last September, the top three American corporations were General Electric, AT&T and Exxon: all monuments of 19th-century enterprise, created respectively by Thomas Edison, Alexander Graham Bell and John D Rockefeller. Only three of the top 10 were founded this century, all in computing: Microsoft at number seven, Intel at eighth and International Business Machines at 10th. The average age of the top 30 is 93.

It might be argued that this is only to be expected. Getting to the top is a slow process. Old companies that survive may grow to be enormous; but they are the exception in surviving at all. This is also doubtful. Take the Dow in earlier days: say, in 1935. Of its 30 members then, 16 are still in the index today. Of the remaining 14, seven survive as independent quoted companies.

Some of the latter, such as Chrysler, are still household names. Others are in disguise. Standard Oil of California is now Chevron and Allied Chemical is AlliedSignal.

That leaves a residue of seven. Six have been taken over, mostly by other big old companies: General Foods by Philip Morris, Nash Motors by Chrysler, American Tobacco by BAT Industries. Only one has gone bust: Johns-Manville, once the world's biggest producer of asbestos, which collapsed under the weight of asbestosis claims in 1982.

Big old American companies, in fact, are hard to kill. IBM (founded 1911) has been through a rough patch, as has Eastman Kodak (1880). Both now seem to be recovering. Even takeover victims pop up again. Nabisco (1898) fell prey to R J Reynolds in 1985 and this year re-emerged as a quoted company.

Not every country's corporate culture is so robust. The UK's equivalent of the Dow is the FT 30-share index, founded in 1935. Only six of the original 30 constituents are in the index today, compared with the Dow's 16 from the same year.

Of the 34 that have dropped out, some survive in shrunken form. Vickers and T&N, for instance, do not make it into the UK's top 150 by market value. Most of the others, such as Fine Spinners, simply dwindled away.

One reason for the difference is the demise of the British Empire, which in its heyday had the damaging effect of sheltering industry from external competition. American companies, by contrast, still have the world's richest economy on their doorsteps.

Whatever the cause, the longevity of American corporations is thought-provoking. Schumpeter had a second argument against big companies' survival. In time, he said, they would inevitably fall into the hands of professional managers. As mere functionaries, managers would lack the vitality of the founding entrepreneurs. They would thus be easy prey for the entrepreneurs of the next generation.

The argument is persuasive enough. The fact that it proved wrong suggests that America's managerial culture is more flexible – and, perhaps, more entrepreneurial – than Schumpeter could have foreseen.

From the narrow perspective of the stock market, this is just as well. The top 30 companies – with an average age, it will be recalled, of 93 – have a combined value of \$1,500bn (£1,000bn), a fifth of the US equity market. If they ever turned out to be dinosaurs, it would take a daunting number of dynamic start-ups to make good the difference.

COMMENT & ANALYSIS

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The price of isolation

Mr John Major's threat to paralyse the European Union unless it eases and then lifts the ban on British beef exports carries the potential to create the most serious crisis yet in the UK's often troubled relationship with its continental partners.

The decision represents a triumph of the politics of frustration over those of common sense. It takes the prime minister another step along the road of appeasement of the Conservative party's most virulent Eurosceptics. In so doing, it risks further substantial damage to the UK's long-term national interest.

This week's refusal by the EU's veterinary committee to lift the present ban on exports of beef by-products like tallow and gelatine was clearly a serious disappointment for Mr Major's government. There is considerable evidence that some other governments were more concerned to rebuild fragile consumer confidence in their domestic beef markets than to follow the scientific advice of independent experts.

So Mr Major was fully justified in seeking speedy interim judgments from the European Court to oblige other governments to accept the assessment of the European Commission that the by-products are safe.

But the prime minister has gone much further by proposing to disrupt all EU business, to block progress at the intergovernmental conference and, if necessary, to derail the EU summit in Florence in late June. Whitehall officials admitted they could think of no precedent for such action since France's "empty chair" policy during the 1960s when President Charles de Gaulle boycotted European proceedings for six months.

It is clear that the impetus behind this policy is not a rational assessment of how best to restore international confidence in the safety of British beef. Instead it represents the latest attempt by the prime minister to assuage the Europhobia on the Conservative backbenches and, increasingly, evident within the cabinet.

According to pro-European ministers, the best that can be said of the package is that it falls short of the demands of cabinet ministers such as Mr Michael Howard, who had pressed for more draconian measures. These would have included withdrawal from the IGC negotiations and the withholding of contributions to Brussels.

Mr Major is still taking a huge gamble that the rest of Europe will back down. His hope is that EU agriculture ministers will lift the ban on beef by-products at their meeting early next month. That, in turn, might lead to an agreed programme to gradually ease the other restrictions.

The danger is that other European governments will not succumb to such crude blackmail. Many are far from convinced by the UK's efforts to stamp out BSE in its beef herds. Others already regard Mr Major as the helpless prisoner of the Eurosceptics, an awkward bystander in their efforts to forge closer integration. They owe him no favours.

Either way, it is hard to see how the prime minister's tactics will advance the national interest. Throughout the BSE crisis, the government has paid the price of isolation in Europe. Sullen opposition to the enthusiasms of its partners and the crude xenophobia of its supporters at Westminster has left the UK with few friends and even less influence.

Hope for Iraq

Monday's agreement between Iraq and the UN is the first piece of genuine good news the Iraqi people have had since the end of their war with Iran in 1988. Of the $1bn per quarter which Iraq will now be permitted to raise by selling oil, roughly two-thirds is to be spent on food and medicine, the lack of which has caused acute suffering in the past few years. (The other third goes on reparations for victims of Iraq's invasion of Kuwait.)

Saddam Hussein will undoubtedly cheat, seeking to retain the delivery trucks for his own purposes, to make food deliveries an instrument of political control, perhaps to raise extra money by selling food on to Iran at a profit. But thanks to US and British tightening of the terms last month (prompted by the Iraqi opposition), the agreement is so drafted as to make such cheating quite difficult. Above all, while sanctions will keep Iraq poor so long as it has not complied fully with all UN resolutions, Mr Saddam can no longer plausibly blame them for the lack of basic humanitarian supplies.

The oil market has taken the news calmly, brushing aside the worst-case scenario in which, to reach the permitted sum, Iraq chases the price downward, pumping ever larger quantities of oil. To suggest that the market is putting its faith in the Organisation of Petroleum Exporting Countries would be misleading. Opec has always found it difficult to agree on production cutbacks when the price is falling, and still more so to enforce them once agreed. But the market clearly judges that in the last resort Saudi Arabia will make room for Iraqi oil by cutting its own output rather than see the price go into free fall.

More uncertain are the political implications. Mr Saddam's acceptance of the deal, after so long resisting it as an affront to Iraqi sovereignty, suggests a degree of desperation. But it also gives him new room for manoeuvre. The fact that he preferred to accept it, rather than comply fully with the UN's demands for transparency on his various weapons programmes, is hardly reassuring to Iraq's neighbours. He remains a serious threat to peace.

A return to stability and normality in the Gulf region is impossible so long as Iraq is ruled by Mr Saddam or others sharing his outlook. Sanctions alone can no longer be relied on to contain him. It becomes more important than ever for the US to consolidate the uneasy truce between the Kurdish parties in the north. Washington and its allies should attempt to build on this to develop a long-term strategy to free the people of Iraq from Mr Saddam's tyranny.

University funds

Labour's proposals for higher education funding, published yesterday, are a disappointment. Only if they represent a first step in the direction of securing substantial private funding for universities will they address the serious predicament of British higher education.

Mr David Blunkett, Labour's education spokesman, has a difficult task. Many in his party, particularly its students, remain doggedly attached to the notion of "free" degrees. Yet in an age of mass higher education and intense competition for public spending, particularly within the education sector, such a policy can only continue an already serious erosion of teaching quality.

Mr Blunkett appeared to have neatly finessed this problem earlier in the year by agreeing to the establishment of the bipartisan Dearing commission, whose remit includes all aspects of university funding including student contributions to tuition costs. In a forgiveable ruse, it was agreed between the parties that Dearing should not report before the election. The direction of policy is unmistakable, but such a move at least ensured that the details of any new student finance arrangements would not dominate the hustings.

Which makes yesterday's policy statement rather odd. Far from leaving the door open to Dearing to tackle the vexed question of student fees, it deliberately rules out options which ought to be considered on their merits. Student contributions to fees are dismissed with barely an argument. So are top-up fees. Only student maintenance is to be covered by Labour's expanded loans scheme.

This last aspect is to be welcomed as a means of improving the lot of students. But it is vital to understand that better student maintenance will not necessarily lead to any increase in direct funding for universities. Such an increase, essential if teaching and research quality are to be sustained, requires either an increase in government grants to institutions or an injection of new funding directly from students through a reform of tuition fees. Fees for first degree students are currently paid in full by the state.

It would of course be possible for Labour to channel savings from student maintenance into higher funding for universities. But this is unlikely to happen in practice and would in any case be a mistake, given the stronger claims of nursery and other under-five providers for new resources. Dearing must not duck the implications – since, as Labour's statement shows, no government is likely to face the music without a loud supporting chorus.

Clash of the software titans

Larry Ellison's network computer threatens the dominance of Bill Gates's Microsoft in desktop computing, says **Louise Kehoe**

The network computer will change everything, enthuses Mr Larry Ellison, chairman and chief executive of Oracle, the leading US database software company. It "will change the way we deliver the mail, educate children, the way we do commerce, the economy..."

His enthusiasm for the network computer is understandable. The concept of a $500 computer that runs easy-to-use programs transmitted over the Internet or a corporate computer network could provide a boost for the database software produced by his company.

But Mr Ellison sees a bigger prize if the network computer catches on. It would bring a "shift in the centre of gravity of the computer industry" away from personal computers running programs from Microsoft, the world's largest software company and Oracle's arch-rival.

This week, Mr Ellison announced endorsement of the concept from more than 30 high-tech companies – computer and consumer electronics manufacturers, software companies, distributors telephone companies and retailers. They include industry giants such as Sun Microsystems, Apple Computer, International Business Machines and Netscape Communications.

These companies have agreed technical specifications for the new computers. Based on the same standards used on the Internet, they are designed to ensure that all network computers are capable of running the same programs.

Mr Ellison stressed that the network computer will have an "open" specification which is not tied to one manufacturer's chip design or to an operating system from a single developer. This is in contrast to the PC market which is dominated by Intel, the chipmaker, and Microsoft, which makes the Windows operating system – both notably absent from the list of network computer supporters.

The open standards approach will foster competition, says Mr Janpieter Scheerder, president of SunSoft, a division of Sun Microsystems: "Customers will win because standards will foster competition and competition will foster quality, innovation, good prices and wide proliferation."

Sun will also be a winner if network computers take off. The company is the leading manufacturer of the servers which power the Internet and "intranets", corporate networks based on the same standards – and is likely to gain from growth in network computing.

In particular, the network computer represents an opportunity for Sun to profit from its development of the Java programming language, which is quickly gaining support among Internet software developers. Programs written using Java could be downloaded to run on desktop network computers.

Apple Computer, struggling as sales of its Macintosh PCs decline, plans to introduce a new "cyber-appliance" – a revamped version of its Pippin games machine – which will combine Internet access, video games, family finance and other popular PC in a $600 unit that plugs into a television set.

"Pippin supports the spirit of the network computer. It is low-cost, easy to use and in the near future will be capable of accessing the Internet," says Mr Gil Amelio, chief executive. "In the 1980s, Apple came out with a computer that had a smile on it. In the 1990s we want to put a smile on the Internet."

IBM sees growth prospects for the network computer among its big corporate customers. The company is "absolutely certain" that there will be strong demand among them for the low-cost desktop computers, says Mr Phil Hester, who leads IBM's network computer efforts.

According to industry studies, PCs linked to office networks cost businesses as much as $12,000 a year to maintain, support and upgrade. Network computers could cut this by 25 per cent or more, says Mr John Thompson, IBM senior vice-president.

IBM also sees the network computer as a replacement for the more than 30m "green screens" or old-fashioned mainframe computer terminals still in use in businesses around the world.

As for Netscape, it plans to develop new versions of its popular Internet browser software to run on network computers. "This is a major new business opportunity," says Mr Marc Andreessen, co-founder of Netscape. "There are 30m-40m copies of Netscape Navigator in use today. Over the next five to 10 years, network computers could expand the user base to hundreds of millions, or even billions."

Industry analysts maintain, however, that the primary motive of the new consortium is to usurp Microsoft's power in the desktop software market. The network computer initiative is to create a "vision of the world sans Microsoft", says Mr Stephen Auditore, president of Zona Research, a market research group. "This initiative has much more to do with power and greed than it does with customer need."

While the hardware specifications for the network computer are broad – a standard PC could be used as one – the software specifications are narrower. While support for software written using Sun's Java language is included, support for Microsoft's much more widely used Windows software is not.

"Sun is attempting to substitute its products for Microsoft's," says Mr Auditore. "Instead of paying a tax to Microsoft for Windows, Sun wants people to pay them a tax for Java."

From Microsoft's perspective, there is little doubt about the true motives of the network computer supporters. In a recently published essay, Mr Bill Gates, Microsoft's chairman and chief executive, said their goal was to "kill the movement toward powerful personal machines, and recentralise computing. They believe that a vaguely defined 'Internet terminal' connected to an expensive central server will supplant the PC."

But Mr Gates acknowledges the need to make personal computers easier to use. He has launched an initiative called the "Simply Interactive Personal Computer" to create a PC that is as easy to use as a household appliance.

And Microsoft believes the price advantage of the network computer may not be as large as its promoters suggest. With memory chip prices falling, PC prices can be expected to follow suit. Last week AST Research, for example, launched a $1,000 multimedia PC.

This is not the first time that powerful industry forces have ganged up against Microsoft. Five years ago, IBM, Apple Computer and Motorola announced their PowerPC initiative, aimed at displacing Microsoft's operating system and Intel chips. It has largely failed, while Intel and Microsoft have increased their dominance of the PC market.

And Mr Ellison has a chequered record in forecasting the future of information technology. Two years ago, he was one of the most enthusiastic promoters of interactive television, an idea with great appeal to makers of big computers and data base software which has so far failed to win the support of the cable TV industry or consumers.

Yet interest in the network computer is mounting among the companies that have lined up behind the new standard. As many as 15 plan to build network computers and the first products – from Acorn Computer of the UK and IBM – are expected before the end of the year.

The battle for the future of desktop computing is just beginning.

	Microsoft*	ORACLE**
Total sales	$5,937m	$2,967m
Net income	$1,453m	$442m
Market capitalisation	$89bn	$29bn

Source: Datastream, Standard & Poor's

* Year to June 1995
** Year to May 1995

From an also-ran to the fast lane

The network computer's potential for reshaping the fortunes of companies – and its ability to fire the imagination of investors – is illustrated by the recent performance of the UK's Acorn Computer group.

Twelve months ago Acorn, the Cambridge-based information technology company, was an also-ran in the fast-moving computer industry. Now, despite having posted a pre-tax loss of £12.8m on sales of just £38.5m last year, it is a favourite share for investors clamouring to tap into new "Internet stocks". Yesterday it closed at 303p, compared with less than 100p a year ago.

Oracle's decision in January to commission Acorn to develop technical blueprints or "reference designs" for a range of network computing products – from hand-held devices to desktop terminals for Internet access – has catapulted the company into the limelight.

Acorn was founded in 1979 by Mr Hermann Hauser, the technology entrepreneur, and was admired by computer experts for its low-cost microprocessor technology. But it faced growing competition in its core education market, lacked the financial muscle to develop new businesses and was largely unheard of outside Britain.

It had to be bailed out in 1985 by Italy's Olivetti group, which retains a 46 per cent equity stake. Mr David Lee, an accountant, was brought in as chief executive by Olivetti in August to grapple with Acorn's problems.

Although Acorn is unlikely to make a fortune from selling network computers itself – Mr Lee is keen to make the group into a technology development company rather than what he calls a "box pusher" – the development of the new computing devices has already transformed Acorn's prospects.

The Oracle contract helped fund Acorn's 50-strong research team. "Effectively it funded our development budget which would have cost several millions of pounds," says Mr Lee. Acorn can also look forward to a share – though no one is saying how large – of the $10-$15 licence fee Oracle will charge manufacturers for each network computer produced.

But perhaps just as important is the fact that the network computer has provided Acorn with a coherent strategy based on the network concept and raised the group's worldwide profile. "People in Tokyo know who we are now," says Mr Lee.

Paul Taylor

· OBSERVER ·

Lots of lovely silver balls

■ Red faces all round yesterday at Mitsubishi and Sumitomo Corporations, two of Japan's most distinguished companies.

Tucked discreetly away in a corner of their latest annual results reports is news that both have lost a small bundle on *pachinko*, the pinball gambling game that is an obsession for millions of Japan's salary-men.

Surely *pachinko* is an unsuitable pursuit for such pillars of the industrial establishment? Wrong – it is very big business. At the last count (in 1994) the *pachinko* industry's gross revenues were Y17,800bn – more than the Japanese car industry's production revenues.

Trouble is, tax evasion is rife among *pachinko* parlour operators. So in order to persuade them to go straight, the police six years ago encouraged the introduction of pre-paid cards, which players could use instead of cash to buy the metal balls needed in the machines. Thus the parlours' revenues would be more easily traced for tax purposes.

Two companies, Nihon Leisure Card and Nihon Game Card, were set up – and chaired by former police officers – to print and sell pre-paid cards. Mitsubishi and Sumitomo both came in as the leading shareholders. It seemed an eminently respectable way to cash in on *pachinko*.

At first, the cards were very popular. By last year 70 per cent of Japan's 18,000 *pachinko* parlours were using the system.

Unfortunately, they were also unknowingly using forgeries. Unscrupulous operators churned out look-alike cards and the two reputable card companies had no option but to pay up when *pachinko* parlours sought to encash used cards.

Now the two pre-paid card producers are a cool Y63bn out of pocket. Mitsubishi has earmarked Y5bn to help out its affiliate, Nihon Leisure; Sumitomo will do what is necessary for Nihon Game.

Embarrassing it may be – but they don't intend losing face. Both the big traders have no plans to pull out of *pachinko*. Like their punters, they plan to play to the – quite possibly bitter – end.

Round the Benz

■ Today's Daimler-Benz AGM promises some theatre.

Having reported record net losses of DM5.7bn for 1995, Jürgen Schrempp will face an anticipated 9,000 angry shareholders who want an explanation why, for the first time in the history of Germany's largest company, they aren't going to see a dividend.

So Schrempp's first agm as chief executive sees some 150 journalists scurrying to Stuttgart – far more than the 100 Daimler-Benz had made provisions for.

Even ZDF, the second of Germany's publicly funded television stations, is turning up with 18 hacks.

Meanwhile Die Zeit, Germany's most august weekly newspaper, is even sending its art critic – presumably to pen a finely crafted review of Schrempp's performance.

Bermudan burgers

■ Bermuda is getting itself in a state over hamburgers. The government has been split over fast food since the wealthy former premier, Sir John Swan, obtained approval to operate a McDonald's franchise.

The ruling United Bermuda Party has traditionally opposed fast-food franchises but Sir John's request was approved by Grant Gibbons, the finance minister. Describing the approval as "patronage, insider trading, influence peddling and damage to Bermuda's image", legislators voted 22-1 to "deplore" the move. But David Saul, the premier, and Gibbons, say the approval granted to Sir John will stay.

This pickle has resulted in the government temporarily suspending the issuing of permits for such franchises, pending elaboration of what Gibbons calls "a fair and equitable policy" on the matter.

Which is all very nice for Sir John; his sole burger outlet will no doubt do very well.

Get a toehold

■ India's present – and possibly short-lived – Bharatiya Janata party government has ruled out "horse trading" to gain the support of enough other parties to win a parliamentary vote next week.

But rural skills are otherwise at a premium during these interesting days in Delhi. Skills like those of former Bihari goatherd Laloo Prasad Yadav, head of the Janata Dal party.

The man who lost his toenails as a child when trampled by a buffalo is taking no chances with wolfish attempts by the BJP to steal votes from *his* flock.

He has corralled all 21 JD MPs from Bihar in the state's guest house. They aren't allowed out, and guests aren't allowed in. If they leave, Laloo shepherds them around in a hired coach.

Pill-popping bliss

■ Calling long-suffering Yugoslavs and Russians: relief is near. California-based ICN Pharmaceuticals is launching Prozac in both regions.

Forget collapsing currencies and civil strife – just hit the happy pills.

Probably makes a change from the indigestion tablets.

The Financial Times

100 years ago

The Cuban Insurrection

Madrid:- A telegram from Havana to the "Imperial" announces that an advance guard of the insurgents under the command of Maximo Gomez has managed to cross the Hanebana River. The insurgents are advancing in a westerly direction with the object of offering a junction with the forces under Marco. According to another despatch received from Washington, the United States Government has threatened Spain with reprisals for the measures prohibiting the export of raw tobacco from Havana, which measure is much approved of at Madrid and in Cuba.

50 years ago

Enter St. Helena

To-day's start of dealings in St. Helena Gold Mines is an event of exceptional interest, since the company is the first of many operating companies likely to be formed to open up the Orange Free State goldfield. Whatever the opening price may be, and about this there was no certainty last night, excited dealings are likely this morning. Nevertheless, the fact remains that, for present buyers, the shares are undoubtedly a sheer speculation.

FINANCIAL TIMES
Wednesday May 22 1996

Toyota to win approval for Chinese engine plant

By Michiyo Nakamoto in Tokyo

Toyota, Japan's largest carmaker, is expected to announce today it has won approval for a plan to build engines in Tianjin, northern China.

The Chinese government is believed to have given Toyota the go-ahead to build an engine plant with Tianjin Automotive Industry nearly two years after the carmaker first began discussions with the Chinese authorities.

The plant is expected initially to produce 1,300cc engines for cars made by Tianjin Automotive and based on a small car produced by Daihatsu, in which Toyota owns a controlling stake. Later the facility will make larger engines.

The deal is a breakthrough for Toyota, which has been seeking a foothold in the Chinese market. The joint venture will boost Toyota's strategy to extend its operations worldwide following the yen's sharp appreciation over the past few years.

Japanese carmakers have lagged behind western competitors in their efforts to enter the Chinese market, which is forecast nearly to double in size from 1.4m units last year to 2.7m in 2000, according to Beijing.

Volkswagen, Peugeot, Citroen and Chrysler all have car plants, and GM recently won approval for a facility, but Japanese groups do not yet have plants in China. Nissan only recently won approval to produce trucks in Zhengzhou through a joint venture established in 1993.

Mr Hiroshi Okuda, Toyota's president, has often said that developing Toyota's interests in China would be a priority. However, the Chinese authorities, which have publicly expressed displeasure at Toyota's slowness in investing in China, had for a long time seemed reluctant to approve the engine project.

In response to a Chinese request to help strengthen the country's fragmented vehicle components industry, Toyota has set up a technical training centre in Tianjin and said it would do its best to help develop the parts industry.

Nippondenso, in which Toyota has a 22.9 per cent stake, has set up a joint venture with Tianjin Automotive and began producing alternators and starters in February. The engine deal is the next step in Toyota's efforts to secure approval for car assembly.

Production capacity of the Charade, made by Tianjin Automotive, is being increased from about 50,000 last year to 150,000 by 1997.

Toyota last year increased its stake in Daihatsu in a move widely interpreted as a sign of its determination to use Daihatsu as an entry into China.

Honda surges, Page 20

Increase in farm prices will be short-lived, says OECD

By Guy de Jonquières in Paris

The recent rise in world agricultural prices, particularly for cereals, is likely to prove short-lived and risks encouraging industrialised countries to relax their efforts to reform farm policies, according to an Organisation for Economic Co-operation and Development study.

It also finds that a shift from market price support measures to producer subsidies in most industrialised countries in the past few years has so far failed to cut overall agricultural spending in the industrialised world.

"The current situation of high prices and tighter supplies is likely to be temporary and according to medium-term projections, world agricultural markets are not moving towards a longer-term shortage," the study says.

It expects nominal world cereal prices this year to fall sharply from last year's peak and stabilise in real terms until 2000, though at a level somewhat higher than their 1990-94 average.

Higher grain and oilseed prices may increase costs for pigmeat and poultry producers. Dairy export prices are also expected to rise in the medium term.

The OECD concedes that the medium-term outlook is clouded by a number of uncertainties.

These include the scope in developing countries for increasing cereal yields; whether China will succeed in maintaining its level of self-sufficiency in food; and whether Russia will re-enter the world market as an importer.

It says increased competition caused by the globalisation of the world economy will also have a far-reaching impact on the structure of the farm sector and on policy reform.

Support to agricultural producers in OECD countries, measured by annual transfers from consumers and taxpayers, reached $182bn last year, 15 per cent above the 1986-88 average. However, levels of support varied widely, falling sharply in the US, Canada and New Zealand, but rising in the European Union, Japan and Switzerland.

The study warns that unless direct payments to producers are targeted more precisely, they could fail to bring about the structural adjustment they seek to promote and simply become compensation for reductions in market price support spending.

Agricultural Policies, Markets and Trade in OECD Countries, Monitoring and Evaluation 1996. OECD publications service, 2 rue André Pascal, 75775 Paris Cedex 16, France. Tel: 331-45 24 82 00 Fax: 45 24 85 00.

OECD reports, Page 4
Commodities, Page 23

Italian Mafia linked to Russian criminals

By Jimmy Burns in London

Senior Italian police officers believe Mafia groups have been channelling increasingly large amounts of money to Russia and linking up with organised criminal groups there.

"There are signs that the former Soviet Union is using the Italian Mafia to build itself up economically just like the US did earlier in the century," Major-General Giovanni Verdicchio, a senior figure in anti-Mafia operations of the Guardia di Finanza – Italy's financial police – told a meeting of senior criminal intelligence officers in London yesterday.

"At the same time the Italian Mafia is laundering money out of the former Soviet Union to rebuild itself financially because of the clampdown on its operations domestically."

The report reinforces a warning by Italian prosecutors in Rome yesterday that the Mafia was still fully entrenched in society and a force to be reckoned with in spite of the dramatic arrest on Monday of Giovanni Brusca, one of Sicily's most wanted "bosses".

Maj-Gen Verdicchio said the Italian Mafia had been investing through front companies in various sectors of the Russian economy, including banking and construction, and was increasingly involved in purchasing weapons in eastern Europe.

He added that a Mafia group was emerging called the Sacra Corona Unida, which was building up a powerful tobacco smuggling network with former Yugoslavia and Albania.

Yesterday's meeting was organised by the UK's National Criminal Intelligence agency and was attended by representatives of US, Canadian, German, Italian and Russian police forces, which are attempting to co-ordinate efforts to combat the growing threat of Russian organised crime.

"Since the collapse of the Soviet Union, we have seen a marked expansion in the activities of Russian crime groups both geographically and in their links with other organised groups," said Mr Albert Pacey, the director-general of NCIS.

British police are concerned that Russians are among international criminals who are exploiting loopholes in the global banking system to channel millions of pounds of illicit money through the City of London. Western law enforcement agencies remain reliant on the co-operation of the authorities in the former Soviet Union.

Lieutenant-Colonel Valkery Serebryakov, of Russia's interior ministry, said organised crime in the country involved 32,000 people, 400 of whom were on an international wanted list for suspected criminal activities.

THE LEX COLUMN

French revolutions

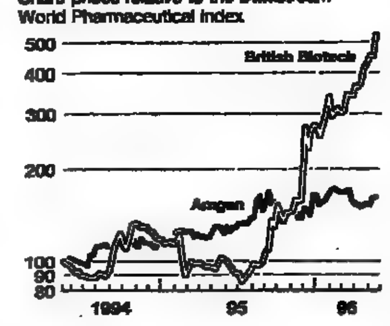
For all the talk about corporate governance in France, there has been relatively little action. That makes yesterday's move by Banque Nationale de Paris look a historic event. The bank has offered to buy out minority shareholders in its investment subsidiary, Compagnie d'Investissements de Paris (CIP), through a one-for-one share swap. Since BNP shares are worth FFr195 ($37.93) and CIP shares were suspended at FFr150½, this is good news for CIP's beleaguered investors. They have watched their shares languish at a massive discount to net asset value, estimated at around FFr330 per share.

What has prompted BNP to take such action? Most likely, a shareholder resolution tabled by SBC Warburg for CIP's annual meeting next week. The resolution proposed that the management should take action to reduce the discount – for example, by buying back shares at FFr195. A similar resolution by another investor was rejected by CIP's management – in other words by BNP – last year. Presumably, a further confrontation with rebel minorities was felt to be an embarrassment worth avoiding.

A discount of 14 per cent to net asset value may be snapped up by French shareholders, but it would be considered an outrage for a UK investment trust. It is certainly a bargain for BNP, which may now take that profit by selling the assets. Meanwhile, SBC's successful investment in CIP suggests it may be worth gambling on better French corporate governance. The shares in other holding companies controlled by corporate behemoths should pick up in anticipation of further corporate restructuring.

FT-SE Eurotrack 200: 1738.1 (-2.9)

Biotechnology companies



Source: Datastream

British Biotech

The performance of British Biotech's cancer drug marimastat has become a £3bn ($4.56bn) question – the likely difference in the company's market value between successful launch of the drug and total failure. But the company's share price represents a substantial vote of confidence, since it translates into a rough assumption that the drug will pull in annual sales of around £1bn by the year 2004.

Given British Biotech's record, it is perhaps surprising that it has got to the cusp of the blue chip FT-SE 100 index on hope value alone. It has disappointed with earlier drugs since its 1992 flotation. Nonetheless, marimastat looks likely to make it to the finish. Other cancer drugs have gained the necessary approvals, despite having worse side-effects and more limited efficacy than is suggested by marimastat's initial tests. The bigger question is over the breadth of application – marimastat has its own negative side-effects and the number of cancer types where it would be offered as treatment is far from clear.

Discounted cash flow analysis, assuming a successful launch, can impute a share price of over £30, compared with the current £33.15. Nonetheless, DCF is a rough science, as Eurotunnel has ably demonstrated. By most analytical yardsticks, British Biotech looks expensive against US peers, from Amgen down to biotech minnows. And if British Biotech fails to impress the market with marimastat, it will struggle to rebuild the shareholder confidence that it needs to provide the funds for its ongoing research programme. With the English Derby coming up, there must be better gambles elsewhere.

German telecoms

The lobbying over how Germany's telecoms market should be opened to competition has started in earnest. Yesterday's complaints by RWE, the energy group, that the process is not moving smartly enough is typical: with the government trying to finalise the legislation in the next two months, large sums of money rest on exactly how the rules are drawn. RWE's main gripe is that the terms for connecting to Deutsche Telekom's network – which could account for roughly half competitors' costs – have yet to be set. Its frustration is understandable; but it only need consult British Telecom, its prospective partner, to understand that interconnection battles are the principal tool used by ex-monopolists to defend their turf.

RWE's outcry also reflects the fact that DT's prospective competitors are nearing the time when they will have to put their money where their mouths are. It is one thing to make grand statements about investing billions of marks; quite another to sink the capital. Following Mannesmann's success in mobile telecoms, other large German groups thought competing with DT in fixed telecoms would be easy. But, in practice, the fixed market will be harder to crack: not only is it not growing as rapidly as mobile; DT's position is better protected. Moreover, while DT's cost base is bloated, it is making strenuous efforts to boost efficiency. This means a competitive strategy based on undercutting DT's prices will only work for the medium term; the long-term winners will be those who emphasise innovation, customer service and branding.

Marks and Spencer

The surge in Marks and Spencer's share price yesterday should be seen as an expression of relief rather than expectation. M&S managed to exceed analysts forecasts, though these had been snipped back due to worries about the blue-chip retailer's performance, particularly in womens-wear, in a difficult market.

There was certainly some good news. Brooks Brothers, its troublesome US acquisition, at last appears to have been knocked into shape following the appointment of a new chief executive a year ago. Furthermore, M&S's financial services business, now contributing 8½ per cent of group operating profits, offers attractive earnings growth.

Certainly, any fears that the company had lost its way can be dismissed, but performance looks solid rather than sparkling. It is hard to get excited about the core UK business, despite the recovery in retail spending. Underneath the headline sales figures, like-for-like growth looks less impressive. The management's comments on current trading may have caused an exaggerated flurry: the company noted strong sales growth in each of the last two weeks, relative to the previous year – but this was placed in a context of volatile trading conditions.

After yesterday's rebound, the stock is still trading at a discount to the retailing sector – though the sector is rather distorted by recovery stocks. Given this, the current premium for M&S shares of 20 per cent to the market, compared with the sector's premium of 25 per cent, looks about right.

Lex comment on BAA, Page 21

Germany in 'recession'

Continued from Page 1

that Germany was a profitable place to operate, the ministry said. So the government had produced a 50 point "action programme" of mainly supply side measures to boost investment and jobs at the end of January and its "programme for more growth and employment", consisting of spending cuts, welfare restructuring and tax changes.

In a clear reference to trade unions, the ministry warned: "Whoever blocks these in part painful but unavoidable measures carries the responsibility for squandering future opportunities for growth and employment."

Malaysian steelmaker

Continued from Page 1

difficulties in 1988, Dr Mahathir picked an industrialist, Mr Eric Chia, to nurse it back to health. As late as 1994, the prime minister, who is currently in the US, was praising Mr Chia's restructuring efforts.

Reports of the company's insolvency have been circulating since February but yesterday's announcement by Mr Anwar was the first public confirmation. He said Perwaja, in addition to its long-term debt, has current liabilities of M$920m and accumulated losses of M$2.9bn.

Mr Anwar said the company's position was "critical", and that it must be restructured immediately. He raised several options for action based on an audit by Price Waterhouse, the UK accountants. One option is that a group of experts be appointed to restructure the company before an eventual listing on the Kuala Lumpur stock exchange.

Another Price Waterhouse proposal was to sell off the company. Four Malaysian companies have expressed interest: Renong Berhad, Westmont Industries, Lion Corporation and the Maju group.

Mr Daim Zainuddin, senior adviser to the prime minister, has said any bids by foreign firms would be considered.

Mr Anwar said that "investigating authorities" were looking into whether there was any wrongdoing by Perwaja's board of directors.

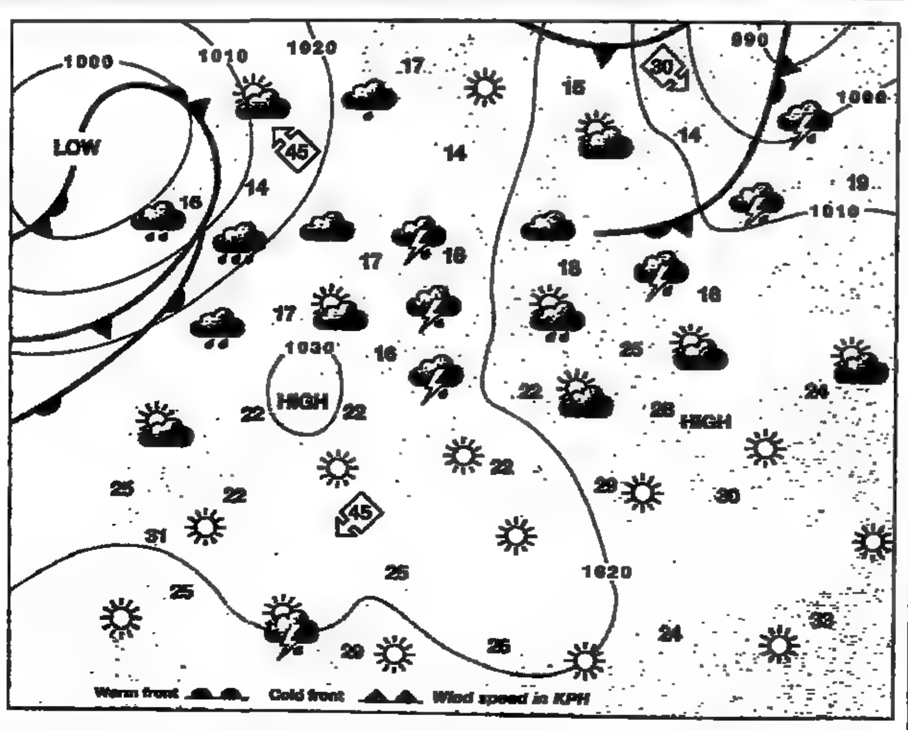
FT WEATHER GUIDE

Europe today

An active frontal zone will bring cloud and periods of rain to the British Isles. As the front moves to the west, patchy rain and cloud will move into western parts of the Benelux and France but central sections will stay sunny. Afternoon temperatures will remain unseasonably cool. Plenty of sun is expected in southern France and the Iberian peninsula. Scattered thundershowers will occur in Germany and near the Alps. Later, some showers will move into Hungary and Romania. Russia will have frequent thunder showers. Cool air will affect north-western Russia and central Europe while south-eastern Europe will stay dry with abundant sun.

Five-day forecast

Th UK will remain unsettled with scattered showers, particularly in the north. Showers will also occur in the Benelux and northern France, though these areas should also have some sun. This area of cloud and rain will push further into the continent, affecting the Alps, Poland and north-western Russia. South-eastern Europe will stay mainly dry, sunny and warm though thunder showers are likely tomorrow.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	fair	42
Accra	fair	32
Algiers	fair	23
Amsterdam	cloudy	15
Athens	sun	29
Atlanta	sun	32
B. Aires	fair	12
B.ham	rain	16
Bangkok	thund	36
Barcelona	fair	21
Beijing	sun	31
Belfast	rain	16
Belgrade	fair	22
Berlin	cloudy	16
Bermuda	cloudy	27
Bogota	cloudy	20
Bombay	fair	33
Brussels	cloudy	16
Budapest	shower	19
C.hagen	cloudy	13
Cairo	sun	33
Cape Town	shower	19
Caracas	thund	31
Cardiff	rain	14
Casablanca	fair	22
Chicago	fair	20
Cologne	shower	17
Dakar	fair	27
Dallas	sun	32
Delhi	fair	37
Dubai	fair	40
Dublin	rain	16
Dubrovnik	fair	[illegible]
Edinburgh	rain	14
Faro	sun	25
Frankfurt	shower	17
Geneva	fair	17
Gibraltar	fair	23
Glasgow	rain	14
Hamburg	shower	16
Helsinki	sun	15
Hong Kong	fair	28
Honolulu	fair	31
Istanbul	fair	25
Jakarta	thund	32
Jersey	rain	15
Karachi	fair	36
Kuwait	fair	41
L. Angeles	sun	19
Las Palmas	fair	24
Lima	cloudy	21
Lisbon	sun	25
London	rain	17
Lux.bourg	fair	15
Lyon	fair	19
Madeira	fair	20
Madrid	fair	25
Majorca	sun	23
Malta	fair	23
Manchester	rain	16
Manila	fair	33
Melbourne	shower	17
Mexico City	fair	28
Miami	thund	31
Milan	fair	23
Montreal	shower	18
Moscow	fair	15
Munich	thund	12
Nairobi	shower	26
Naples	sun	23
Nassau	rain	30
New York	fair	25
Nice	sun	23
Nicosia	sun	33
Oslo	fair	17
Paris	cloudy	17
Perth	fair	23
Prague	thund	14
Rangoon	shower	35
Reykjavik	fair	12
Rio	shower	28
Rome	sun	22
S. Frsco	sun	18
Seoul	fair	22
Singapore	thund	33
Stockholm	fair	16
Strasbourg	fair	17
Sydney	fair	19
Tangier	fair	23
Tel Aviv	sun	31
Tokyo	fair	23
Toronto	fair	18
Vancouver	shower	15
Venice	fair	22
Vienna	thund	14
Warsaw	cloudy	17
Washington	sun	25
Wellington	shower	16
Winnipeg	fair	17
Zurich	shower	14

INTERNATIONAL CORPORATE FINANCE

A year in which fantastic deals became reality

The latest transactions are mergers of equals which cut costs and transform the competitive balance within industries, writes Nicholas Denton

Think the unthinkable, investment bankers have long encouraged their clients. In the past year even the most fantastic deals have become reality. Sandoz and Ciba-Geigy, the two Swiss pharmaceutical giants, are combining in Europe's largest merger. Two pairs of Baby Bells – Bell Atlantic and Nynex, and Pacific Telesis and SBC Communications – have fused in the biggest restructuring in the US telecoms industry since the break-up of AT&T's monopoly in 1984. In banking, Lloyds Bank has combined with TSB group to create the UK's biggest retail bank, and Chemical Bank and Chase Manhattan have merged in the US.

As financially leveraged takeovers by corporate raiders such as KKR defined the last acquisition frenzy in the late 1980s, so mega-mergers within pharmaceuticals, banking, telecoms and other industries have characterised the current surge in activity. In the US, the volume of deals has topped $100bn in six of the last seven quarters. In Europe, the Ciba-Sandoz deal lifted volume to a record $89.3bn in the first quarter of this year, according to Securities Data Company.

Focus – the divestment of peripheral divisions and the strengthening of "core businesses" – has been the watchword of markets, companies and their advisers for several years. Until recently, however, the typical deal was the bolt-on acquisition, in which the purchaser dwarfed the target. The latest transactions are of a different order: the emblematic deal is a merger of equals which generates enormous cost savings and transforms the competitive balance within the industry in which it occurs.

The shift has taken place because of three factors. First, in some industries, such as pharmaceuticals, many smaller competitors disappeared in an earlier wave of consolidation. Second, rising share prices in the US and Europe have made it harder for acquirers to justify paying the 15 per cent premium typical in a takeover. In a merger, shareholders of both companies share more fairly in the benefits And third, where the two companies' operations overlap, the scope for cost savings is vast.

Moreover, analysts and investors are becoming ever speedier in recognising the benefits, as a succession of deals in the pharmaceuticals sector has shown. SmithKline Beecham reduced its workforce by 10 per cent and closed about 60 sites after its merger in 1989. The process took about three years. It took a few months for analysts to work out the implications of Pharmacia's merger with Upjohn last year. The two companies' combined market capitalisation rose from $12.6bn at the time of the deal to $22bn in March. The lesson has now been learned. The announcement of the fusion of Sandoz and Ciba created $15bn of value for shareholders in a single day. Put simply, a merger promising cost savings has become the surest way for a company's management to lift its share price.

"People for the first time ever understand the cost implications of merger," says John Studzinski, head of investment banking for Europe at Morgan Stanley. "It translates into a share price move, not just in the long term, but in the short term. Executives were afraid of going into a merger because they thought it would invite intervention. But now the stock can go up 20 per cent and that lowers the risk of an interloper."

But investment bankers are not following their own advice. While pharmaceuticals, telecommunications and retail financial services are consolidating, investment banking is becoming ever more crowded.

Goldman Sachs, Morgan Stanley and CS First Boston used to be the only truly global investment banks. Now other US houses, such as Salomon Brothers and Lehman Brothers, are building European equities and investment banking businesses. Merrill Lynch, transcending its origins as a US retail stockbroker, has acquired securities firms in the UK and Spain, and is hiring corporate financiers to develop a European M&A practice. JP Morgan has broken through as an M&A adviser in Europe and is attacking equities next.

A yet more massive institution with origins in US commercial banking, Chase Manhattan, plans to provide a one-stop shop for corporations' varied financial needs. At least seven European banks have grand ambitions for their investment banking divisions. Deutsche Bank plans to spend another DM700m this year building up Deutsche Morgan Grenfell into a European investment banking champion. But it faces rivals for that position in SBC Warburg and Barclays de Zoete Wedd, among others.

There are still plenty of niches. Deals within industries require advisers with expertise in the sector, and some smaller investment banks have prospered by focusing on particular industries. Independent UK houses such as Schroders and Flemings, and boutiques, such as Hambro Magan and Phoenix Securities, have advised on many financial sector deals. In the US, West Coast high-tech specialists such as Robertson Stephens, Alex Brown & Sons, Hambrecht & Quist and Montgomery Securities, have about half of the market of leading public offerings of high-tech companies.

And, while many industries are consolidating in the face of stagnant revenues, the securities business as a whole is growing. This is because companies are reducing their reliance on loans from commercial banks and turning to debt and equity markets for financing.

On the other side of the equation, individuals are holding an increasing proportion of their savings in mutual funds and funded pension schemes. Investment banks stand in the middle of this securities business, and benefit from its growth. On initial public offerings by corporates, investment banks earn margins of 4-6 per cent. And the ecstatic stock-market reception for recent mega-mergers has inspired other companies to think the unthinkable. Corporate financiers say the pipeline of M&A deals remains full.

Yet, there are several reasons why investment banking earnings will not grow as fast as new entrants pile into the market. First, revenues are lagging behind growth in the volume of business. Between 1984 and 1994, while equity trading volume grew about 16 per cent a year, revenues in the US securities business increased just 8.1 per cent a year.

Second, margins are coming down. For instance, fees for passive asset management, where the manager tracks an index, have fallen to three basis points, or 0.03 per cent, per annum. In M&A, advisory fees on large deals, which were often more than 1 per cent in the late 1980s, have fallen as low as 0.25 per cent.

George Feiger, head of investment banking at SBC Warburg, cites foreign exchange. "Something that was a most lucrative business has been substantially commoditised," he says.

Moreover, while over-the-counter derivatives contracts provided high margins and a boost to revenues in the first half of the 1990s, there is no hot new product on the horizon. "Most of the significant product innovations have already taken place," he says.

Third, the crowding of commercial banks into investment banking has increased salary and bonus bills, the largest element of an investment bank's costs. Hirers are typically offering guaranteed bonuses over two or three years to attract staff. Some houses which fear defections, such as SBC Warburg, have countered by giving loyalty bonuses to select staff. Bonuses for staff now typically match an investment bank's

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IN THIS SURVEY

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A year of fantastic deals

Continued from page 1

pre-tax profit. The heightened competition makes for stress. "For the industry it means pressure on margins, pressure for people, pressure on market share," says Walter Gubert, head of JP Morgan in Europe.

And, fourth, many investment bankers believe, the industry is close to the top of its notoriously violent cycle. M&A deals, particularly if they achieve a boost to share prices by cutting jobs, are testing the limits of political tolerance. The UK government, for instance, has stepped in to block bids by National Power and Powergen for regional electricity distributors. Advisers will find it hard to match the M&A activity of 1995 and 1996 in the US and UK.

The equities business, as well as M&A, looks overblown to some analysts. Luxury names such as Harvey Nichols and Gucci have come to market. Many investment bankers are sceptical of the values achieved for high-tech companies such as Netscape and Yahoo!. And all investment banking markets remain vulnerable to an increase in US interest rates.

The commercial banks are piling in to the securities and advisory businesses. John Studzinski, of Morgan Stanley, says it is partly a matter of prestige. Investment banking is, he says, "the hood ornament on the Mercedes-Benz".

Underpinning the banks' scheme, too, is a business logic of sorts. As blue-chip companies take out loans within 10 basis points of the interbank rate, banks' margins from traditional lending have disappeared. "The commercial banks are looking, not at where they are going, but where they are coming from," says Mr Feiger of SBC Warburg. "In corporate banking it is impossible to make money. The pricing is insane. The investment banking business we are in looks good by comparison."

It will take time, and a downturn in the market, before investment banks take the advice they dole out to their clients and embark on some mega-mergers of their own.

■ **After the deal:** by Daniel Bogler

Post-takeover stress disorder

Many agreed deals subsequently turn sour. A look at the three principal danger signs

After a gruelling 60-day bid battle, the acceptances have been counted and recounted, victory has been declared, and management and advisers are uncorking the champagne.

All too often, however, the pretty picture fades and companies fail to reap any benefits from the takeover they have worked so hard to win.

Recent studies by the Economist Intelligence Unit and London Business School suggest that more than half of all acquisitions fail, measured by subsequent share price performance, earnings growth or less tangible yardsticks such as new product development and the turnover of top executives.

The verdict of PA Consulting Group is even gloomier. Its research shows that "up to 80 per cent of of acquisitions destroy value for the acquirers' shareholders. Up to one third of firms that are acquired are subsequently divested by the acquiring parent."

And the value destroyed is not small. According to one study, those companies that spent more than 10 per cent of their capital on takeovers had, after five years, share prices that were only 60 per cent of those of a comparable group.

One of the reasons for failure is the lack of a sound strategic reason for doing the deal. A good example is the disastrous £800m acquisition by Boots of Ward White, owner of the Do-It-All and Halfords chains. Boots soon found that the retailing skills it had developed in its chemists shops were not easily transferable to DIY and bicycles and that the deal made it more exposed to changes in consumer taste. As the recession hit, the former Ward White businesses started losing money hand over fist and it was only the strength of its core business that saved the group.

Boots also undoubtedly paid too much for what was a collection of pretty mundane businesses. Even where the strategic logic is sound, a silly price can turn a promising takeover into a fiasco. Such was the case in Redland's acquisition of Steetley, a rival building materials group, according to the SBC Warburg analyst Mr Mark Stockdale. The purchase strengthened Redland's market positions but has diluted its earnings for the past four years.

In the US, highly leveraged deals such as KKR's purchase of the tobacco and food group RJR Nabisco and the Time Warner merger have left both groups weighed down with enormous amounts of debt and sluggish stock prices.

Failure to buy for sound strategic reasons and getting drawn into overpaying by the thrill of the chase are two of three reasons cited by Chris Beresford, a partner in the accountants KPMG, for deals turning sour.

The latter is more common than most managers would care to admit. Raising finance, fighting off rivals and winning become ends in themselves. After all, most managers would prefer to run a bigger business, especially since there is a clear correlation between the size of the company and their own pay. And a survey by the National Institute of Economic and Social Research found that companies that had expanded by takeover had "systematically higher" growth in top management pay relative to companies that had expanded through internal growth.

In addition, the whole structure of the City, from merchant bankers hungry for fees to fund managers watching quarterly performance targets, is geared up for short-term returns. The costs of a takeover are now so astronomical – Rentokil's £2.1bn bid for BET racked up more than £100m in total fees – that victory, even if it means a few more pence on the offer price, becomes essential. Paul Manduca, chief executive of Threadneedle Asset Management, admits that: "most fund managers and corporate financiers have never worked in industry. They may know the businesses well but they actually don't know what the opportunities are."

Another fund manager adds: "Some takeovers are entirely appropriate. But sometimes it is a very inefficient way of achieving change or improvements in management."

There are occasions where demergers are a better course. The mere threat of a bid from Hanson encouraged ICI into demerging Zeneca, its drugs business. The result was one of the most impressive creations of shareholder value in recent years. Old ICI had a market capitalisation of just over £10bn at the time of the split; the two new companies are now worth a total of £20bn. Mr Beresford's third reason for the failure of a takeover is poor integration of the two businesses.

This is perhaps the most difficult area of all, since it concerns cultural and human issues more than strategic and financial ones. If the acquiring management fails to take rapid action to reassure managers, employees and customers of the target, it can find the value of what it bought disappearing through its fingers.

"Speed and decisiveness in appointing the new organisation from the top down is the critical ingredient," says Jeremy Strachan, Glaxo's legal and corporate affairs director, who helped oversee the drug giant's £9bn merger with Wellcome a year ago. Mr Strachan adds that by the time the takeover went unconditional, Glaxo had a clear plan for the new company's structure, a detailed timetable and a network of people to implement the integration. He says that the basic work was done in three months, during which time, expectation of change was high and people were at their most flexible.

"We moved rapidly even at the risk of making some mistakes. And we don't seem to have made any more mistakes than if we had taken twice as long," Mr Strachan adds.

Jobs market merry-go-round

Name	Moved from ...	To	Job description
Maurice Thompson	S.G. Warburg	Deutsche Morgan Grenfell	Head of investment banking
Michael Cohrs	S.G. Warburg	DMG	Head of equity capital markets
Edson Mitchell	Merrill Lynch	DMG	Head of global markets
Frank Quattrone	Morgan Stanley	DMG	Head of hi-tech banking group
David Haysey	S.G. Warburg	DMG	Head of European equities
Ian Wace	S.G. Warburg	DMG	Head of equity sales
Miko Giedroyc	S.G. Warburg	DMG	Head of European equity research
Guy Dawson	DMG	Merrill Lynch	Head of European corporate finance
Justin Dowley	DMG	Merrill Lynch	Head of UK corporate finance
Michael Phair	N.M. Rothschild	UBS	Telecoms banker
Anthony Fry	N.M. Rothschild	UBS	Media banker
Mark Seligman	SBC Warburg	Barclays de Zoete Wedd	Head of corporate finance
Philip Yates	SBC Warburg	Merrill Lynch	Managing director, corporate finance
Michael Tory	SBC Warburg	Morgan Stanley	Managing director, investment banking
Bruno Gabriele	Salomon Brothers	Lehman Brothers	Co-head of European investment banking
Thomas Marsoner	Salomon Brothers	Lehman Brothers	Head of financial institutions group
Mark Davis	Salomon Brothers	Chase Manhattan	Head of M&A
John Costas	CS First Boston	UBS	Head of US fixed income
Thomas Hanley	CS First Boston	UBS	US Banks analyst
Richard Barrett	Salomon Brothers	UBS	Head of financial institutions

■ **Movers and shakers:** by Nicholas Denton

Spotlight falls on people

The merry-go-round of the jobs market has become more of a dizzying centrifuge

When *Halifax Building Society* switched to Deutsche Morgan Grenfell it thought it had finally found a settled adviser for its flotation. SBC Warburg, its former bank, had suffered from staff defections, but DMG was a poacher rather than a "poachee".

So it seemed, but within a few days DMG itself had fallen victim to the head-hunters. One of its Halifax team left for Merrill Lynch.

The merry-go-round of the investment banking jobs market has become more of a dizzying centrifuge. Turnover in the jobs market has reached such a pitch that the head-hunters themselves are falling victim to the defections which they encourage with their telephone calls. Julian Sainty, the executive who has organised DMG's hiring spree, has quit Norman Broadbent to set up a rival recruitment agency.

What is happening is an acquisition spree, with a twist. Ambitious investment banks such as DMG, UBS and Merrill Lynch are buying out, not their competitors, but their rivals' staff.

By the end of this year, DMG will have spent DM1.1bn hiring 400 professionals, and paying for the support staff and computer systems they need.

UBS is half way through an addition of 60 staff in European corporate finance. And Merrill Lynch has lured Guy Dawson and Justin Dowley, two leading UK corporate financiers, from DMG. At the same time, Edson Mitchell took about 50 employees the other way after leaving Merrill to be head of global markets at DMG.

Poaching is on the increase for two main reasons. First, commercial banks are attempting to break into the investment banking business as margins on corporate lending erode.

At the same time, there are few potential acquisition targets.

"There is no one to acquire so they have to acquire people," says the head of European investment banking at a US investment bank.

In the UK, S.G. Warburg, Barings, Kleinwort Benson and Smith New Court fell last year. Schroders, Flemings, N.M. Rothschild and Lazard Brothers, the main remaining independents, are closely held. The US is equally lacking in credible acquisition possibilities.

An acquirer would have a hard time integrating the individualists of Salomon Brothers. Lehman Brothers managers, just two years after breaking out from American Express, give no indication of giving up the independence they so recently won.

An acquirer, after paying the $6bn or so it would cost to acquire Lehman Brothers, would have to retain staff. SBC, after paying £860m for Warburg's investment banking business, set aside £60m worth of golden handcuffs to retain staff, and still lost key executives.

Martin Kohlhaussen, chairman of Commerzbank of Germany, spoke for many banks with investment banking ambitions when he ruled out any immediate acquisitions: "At the moment, we know of no company suitable for takeover, at least not at an acceptable price," he said. "That means we will pursue further expansion in investment banking under our own steam."

The other cause of turbulence is last year's wave of acquisitions in the City of London, which have shaken loose some talented executives. SBC Warburg has shed 1,400 of the jobs that it had on its fusion and about 400 Smith New Court positions have gone since the UK securities house was taken over by Merrill Lynch.

> Partnerships could enjoy a return to fashion

Many of these positions were in the back office, and many departures were encouraged. Nevertheless, seven out of 35 managing directors in SBC Warburg corporate finance have left since the merger. The departures of at least four executives – Derek Higgs, Mark Seligman, Michael Tory and Philip Yates – are regretted.

Other UK houses, apart from a recent spate of departures from N.M. Rothschild, have held together. But US investment bankers say the UK houses, which pay less than the market average, remain vulnerable to poaching by the new entrants.

"It is a real hurricane," says the head of one US investment banking operation in Europe. "With us, the door might creak, or the window might crack. But if the European banks take key people from Fleming, Schroders or Lazard, the whole back wall goes in."

But the impact of the hiring offensives will be felt, not just by the smaller operators, but across the industry. For winning in the poaching battle is sometimes more costly than losing.

Frank Quattrone, the high-tech banker who left Morgan Stanley in a team move, is rumoured to be earning $20m over three years at DMG. So is John Costas, who left CS First Boston to head UBS's effort in the US debt market.

And most investment banks are paying higher bonuses to key performers, partly to sharpen incentives, but also to stave off head-hunters.

As a result, the earnings of employees account for an ever larger slice of revenues. At CS First Boston, one of the most generous employers, the annual bonus pool was twice the size of pre-tax profits last year.

With bonuses increasingly paid in the form of shares, employee ownership is growing. At Lehman Brothers, staff now own 16 per cent of the company.

As investment banks become more emphatically "people businesses", a seemingly old-fashioned form of organisation is looking more appropriate. It is the partnership. Already last year, Goldman Sachs partners voted against going public.

Partnerships, if they withstand the head-hunters better than their public rivals, could enjoy a return to fashion.

■ **US:** by Maggie Urry

Pipelines are full of deals

Specialists believe that the fundamental trends driving M&A activity will continue

The surge in mergers and acquisitions activity in the US last year looks set to continue through 1996. Although the first quarter total of $104bn worth of announced deals is 9 per cent below the average quarterly total for 1996, the second quarter got off to a strong start with the announcement of a number of deals, notably the $50bn merger of Bell Atlantic and Nynex.

Michael Carr, co-head of M&A at Salomon Brothers, says "the first quarter felt a bit slower, but it picked up in March, and April was phenomenal".

Investment banks report full pipelines of deals and many M&A specialists believe that the fundamental trends within industries, such as consolidation, deregulation, globalisation and vertical integration, currently driving M&A activity will continue.

A common remark by investment bankers is that unlike the merger wave of the late 1980s, when deals were dreamed up by financial engineers and then presented to companies, the activity being seen now is based on more genuine industrial considerations.

"The overarching dynamic [behind the deals] is there is so much pressure from Wall Street to grow earnings," says Mr Carr. After the cost-cutting of the early 1990s, he says, investors are pressing companies "to grow the top line". Thus the stock market is friendly to deals, and "growth by acquisition is not only accepted, but rewarded", says Mr Carr.

These days, he notes, a bidder's share price, as well as a target's share price, is likely to rise on the announcement of a deal whereas in the past the aggressor often saw its share price fall.

Even so, Steve Blum, KPMG Peat Marwick's US national director of corporate finance, predicts, "most acquisitions fail to satisfy the buyer and I do not see that changing". However, he thinks the failure rate should be reduced as deals are increasingly driven by a desire for strategic focus and by the use of equity rather than debt to finance acquisitions.

Jack Levy, co-head of M&A at Merrill Lynch, says that chief executive officers of companies are "growing more convinced that leadership positions and dominant market shares are a prerequisite for enduring profitability".

As a result they are re-arranging their portfolio of businesses, divesting the non-core activities and doing deals to increase their standing, whether in their domestic market or in markets around the world.

Investors are demanding that companies "enhance shareholder value" and that is putting pressure on chief executive officers to sharpen the focus of their business. "The stock market hammers unfocused companies" says Mr Blum.

He lists many examples of this, such as the break-up of ITT, the conglomerate which included insurance and hotels, AT&T, the huge US telecommunications group, and the transformation under way at Westinghouse, which is crafting a broadcasting company from a conglomerate.

Indeed, the M&A tag put on this branch of investment banking might be renamed mergers, acquisitions and spin-offs, such has been the popularity recently of the demerger, where investors in a company are "given" shares in a subsidiary business which then gains a stock market quote.

Mr Blum says that two-thirds of the transactions in each of the past three years have been divestments – either sales to other companies or management buy-out groups, or increasingly to shareholders.

Frederic Escherich, managing director at JP Morgan, has researched the effect of spin-offs on the price of both the parent and the departing subsidiary. He finds that both shares are likely to perform better as a result. Investors and analysts find focused companies easier to value, and the newly-quoted company attracts new coverage and interest from them and on average outperform the market.

Cross-border deals are increasing as companies find they have reached maturity in the home market and need to expand internationally. US utility companies, for instance, have been actively looking to expand in the UK and Australia. Drug companies, which regard their industry as a global one, are also increasingly buying overseas, such as Hoechst of Germany purchasing Marion Merrill Dow in the US and Pharmacia of Sweden buying Upjohn, another US company.

Mr Blum says that in 1995 US companies spent more buying overseas than non-US companies did, but so far this year the reverse has been true. Activity across the US-Canadian border has been high, perhaps as companies try to benefit from the arrival of the North American Free Trade Agreement.

As well as the "why" of doing deals, there is the "how". Here the main trend recently is towards using equity rather than debt to finance deals. In the 1980s many deals were leveraged – bidders would take on huge borrowings to pay for an acquisition and then sell businesses to repay the debt. But now that bids are more likely to fill a strategic need, there is less likelihood that the target will be broken up after it is taken over.

As stock markets around the world have risen, companies' shares have appreciated as an acquisition currency. Even deals which appear to be for cash may be refinanced with equity at a later date.

Increasingly shares are being used in hostile takeovers in the US, Mr Blum says. Although hostile share-swap bids have been common in the UK, the process of registering new shares with the Securities and Exchange Commission has deterred use of the device in the US. Mr Carr says hostile share bids only work in industries which are subject to regulation, such as banking and utilities. That is because the time it takes regulators to approve a merger gives a bidder long enough to register the new shares with the SEC. That makes using shares possible, such as in Wells Fargo's bid for First Interstate, or Western Resources' proposed takeover of Kansas City Power & Light.

What could burst the M&A bubble? Mr Levy says the activity depends on both CEO confidence and good economic conditions. "Both are necessary, neither by itself is sufficient," he says.

A stock market fall would undermine confidence while a weakening of economic conditions would cause the merger trend to lose momentum.

Mr Blum says "in M&A the three most important factors are interest rates, interest rates and interest rates". A rise in the cost of money would make debt-financed deals more expensive and at the same time undermine the stock market and so make equity deals less likely as well.

US domestic M&A transactions 1996[1]

Rank	Adviser	Value ($m)	Market share	No of deals
1	Merrill Lynch	65,624.1	32.5	52
2	Morgan Stanley	50,336.3	25	32
3	Lazard Houses	48,760.7	24.2	23
4	Bear, Stearns	45,236.4	22.4	18
5	Salomon Brothers	33,473.0	16.6	22
6	Goldman, Sachs	29,752.6	16.8	45
7	Lehman Brothers	22,836.6	11.3	27
8	J P Morgan	16,129.1	8.0	11
9	Wasserstein, Perella	10,164.3	5.0	2
10	Donaldson, Lufkin & Jenrette	8,254.6	4.1	26
11	Smith Barney	7,209.2	3.6	26
12	PaineWebber	4,241.7	2.1	9
13	Montgomery Securities	4,076.2	2.0	11
14	CS First Boston/Credit Suisse	3,909.4	1.9	18
15	NatWest Markets Group	3,768.6	1.9	6
16	Chase Manhattan	3,600.0	1.8	1
17	A.G. Edwards	3,429.9	1.7	2
18	Alex Brown	3,032.1	1.5	20
19	The Blackstone Group	2,795.2	1.4	3
20	Dillon, Read	1,724.9	0.9	4
21	Wheat First Butcher & Singer	1,631.0	0.8	5
22	Hellman & Friedman	1,486.0	0.7	1
23	Broadview Associates	1,359.5	0.7	20
24	Robertson Stephens	851.7	0.4	1
25	Unterberg Harris	821.3	0.4	1
	Deals with adviser	166,170.1	82.4	422
	Deals without adviser	35,469.9	17.6	2,838
	Industry totals	201,640.0	100.0	3,260

[1]Announced transactions from January 1, 1996 to April 24, 1996; completed; unconditional; partially completed; pending; intended; lapsed deals based on rank value; excluding open market repurchases

Source: Securities Data Company

PROFILE: Merrill Lynch

Brokers join advice squad

May Day 1975 is a date etched in the memories of Wall Street stockbrokers. That was the day when fixed commissions ended in the US market. In the months that followed, commissions on institutional trades fell by 80 per cent.

"We had to find a new source of livelihood," recalls Herbert Allison, now executive vice-president at Merrill Lynch, and in charge of the bank's corporate and institutional business group.

In those days, Merrill was known as a "wirehouse". Essentially a retail stockbroker with offices throughout the US, but also with a sizeable institutional investor client base, its reputation was as a distributor of other firms' deals. Although it had been in investment banking since the 1920s, it was only after May Day that it decided to build up that side of its business.

Now, Mr Allison declares, Merrill is "the most global investment bank in the world today". Over the past 20 years, the firm has built its capabilities to the point where it is at or near the top of international league tables for underwriting and for mergers and acquisitions. It is advising Bell Atlantic in the $50bn merger with Nynex announced last month and has won senior roles in many telecommunications privatisations.

Last year's $800m acquisition of Smith New Court, one of the leading London stockbroking firms, the hiring of a number of top investment bankers in the UK and this year's purchase of FG, a Spanish broker, have given Merrill a strong European platform.

Back in the 1970s, the strategy was based on building expertise in product areas and on "climbing the yield curve", as Mr Allison calls it. Starting from the shortest term debt instruments, it worked its way through the maturity spectrum until, by the late 1980s, it had become a leading underwriter of debt and equity around the world.

In the 1990s, Mr Allison recounts, the strategy changed to the current one of focusing on clients and aiming to meet their needs across the range of products.

The firm's aim is to help clients enhance shareholder value by whatever route is necessary. Clients' needs are constantly changing, Mr Allison adds, and they want investment bankers who can provide a full range of services. Under this strategy, Merrill divides its investment bankers into industry groups, following sectors such as telecommunications and media, financial institutions, technology, utilities, healthcare and chemicals. The idea is that a team will have all the skills needed to execute business, but will also develop an understanding of a particular industry.

Dan Bayly, co-head of investment banking, says Merrill wants to be its clients' advisers, not just the transactors of a deal. He argues that knowledge of clients' industries aids the consultative process: "We can view problems from their perspective and help with solutions." That should mean Merrill's fee-based advisory work will increase in relation to commission-based transactions, a strategy many investment banks are adopting in an attempt to make the nature of their revenues less volatile.

Buying Smith New Court, Mr Bayly says, was a "critical move" for Merrill. The firm had been taking the same approach in the UK as other US investment banks, such as Goldman Sachs and Morgan Stanley, gradually expanding the corporate finance business and focusing on cross-border M&A. "We then decided we wanted to leapfrog the competition," Mr Bayly continues. "Smith New Court has allowed us to do that".

Although Smith New Court did not have a sizeable corporate finance arm, it was strong in equity research, sales and trading – echoing Merrill's wirehouse background. Research and distribution are regarded by many as an essential adjunct to a corporate finance business.

Kevan Watts, head of investment banking in Europe, says the decision to buy a UK firm was sparked by the takeover of SG Warburg, once the pre-eminent UK merchant bank, by Swiss Bank Corporation. That signalled a change in the competitive environment in the UK advisory market, allowing an entrée for foreign-owned banks. It also persuaded a number of investment bankers to consider working for a non-UK bank. As a result, Merrill decided to expand into the UK domestic M&A market, but realised it could not do so quickly without acquiring the equity expertise that a firm such as Smith New Court could bring.

Since taking over Smith New Court, Merrill has hired some senior British investment bankers, including Guy Dawson and Justin Dowley, from Deutsche Morgan Grenfell, and Philip Yates, who joined from SBC Warburg.

The Smith New Court deal acted as a magnet both for clients and for bankers, and since it was completed late last summer Merrill has won mandates it could not have hoped to get before. It will be the lead broker in the flotation of the Halifax Building Society, which is converting into a bank, and one of the top three banks involved in the privatisation of Railtrack.

Mr Allison says that Merrill has "made extraordinary progress over the last 20 years". But he still sees opportunities to grow further.

Maggie Urry

PROFILE: Barclays de Zoete Wedd

Getting its act together

What do you get when you take three of the oldest names in the London financial markets and mix them together? The answer, in the case of Barclays Bank, stockbroker de Zoete & Bevan and stock jobber Wedd Durlacher, may be a very long wait.

Although Barclays de Zoete Wedd, or plain BZW as it is now known, established strong and even dominant positions in many of the markets in which it was active, even its most vociferous internal cheer leaders admitted, if pressed, that the combination had failed to live up to the full potential of an integrated corporate and investment bank and broker.

Since 1994, however, BZW has restructured its business and pared down its customer list. To its strength as probably the leading equity market maker, with some 15 per cent of the London market, it has added a reinforced corporate finance advisory department – long regarded by rivals as a weak link – and a £206bn fund management arm with the acquisition of the quantitative specialist manager Wells Fargo Nikko.

Most importantly, the group has transferred loan syndication and corporate lending operations from the bank to BZW, although the bank still handles some corporate relationships.

National Westminster Bank has adopted a similar policy, transferring corporate relationships to NatWest Markets, its investment banking subsidiary, although it has handled the transfer rather differently.

BZW certainly thinks it has crossed a threshold. "At the start of 1995, BZW was one of a number of British investment banks with international franchises who were attempting to compete on a global scale; we now find ourselves virtually on our own in terms of geographic spread and product range. Most of our British rivals have become part of international groupings," said Sir Peter Middleton, the group's chairman.

An important step in establishing the corporate finance division was the recruitment from S.G. Warburg last summer, after its takeover by Swiss Bank Corporation, of Mark Seligman and a number of other specialists.

Mr Seligman is now joint chief executive – one of more than a dozen with that title in BZW's status-conscious organisation chart – of corporate finance, alongside Richard Gillingwater and under Graham Pimlott, who is chief executive of merchant banking.

Although Mr Seligman comes from the investment banking world of Warburgs, he now firmly espouses the view that BZW's ownership by Barclays Bank is a bonus.

"It's difficult not to draw the conclusion that the market will polarise increasingly between niche players and firms which can provide an integrated service. I think for an investment bank to have a clearing bank that is across the street from you is helpful," Mr Seligman says.

He argues that while corporations have for some time shown that they are willing and, indeed, keen to integrate the roles of broker and investment bank, they have more recently begun to look for an investment bank that also has a big enough balance sheet to finance a deal or underwrite an ensuing debt or equity issue.

With Barclays' financial muscle behind it, BZW has begun to demonstrate its ability to meet this demand. In last year's £680m bid by Edison Mission Energy of the US for First Hydro, the pumped electricity storage business of the UK's National Grid, BZW acted as adviser, provided acquisition finance and arranged and underwrote a bond issue to refinance the £400m of debt.

This month, BZW acted as joint adviser with Merrill Lynch to General Public Utilities of New Jersey and Cinergy of Cincinnati in their joint £1.7bn bid for the UK's Midlands Electricity, and also provided half of the debt finance for the bid.

"Major corporations want a house that can deliver a service from corporate broking through advisory to execution in debt or equity, using its own balance sheet," Mr Seligman says.

There is a fine line to be

Mark Seligman: BZW's ownership by Barclays Bank is a bonus

walked here. At the same time as boasting about the ability to put its balance sheet to work for a client, Barclays is also scaling back its corporate lending, which rarely if ever provides the sort of return on the economic capital devoted to it that the bank seeks.

BZW's total loans and advances to customers have, in fact, dropped from £9.7bn at the end of 1993 to £8.4bn at the end of last year.

That has meant dropping corporate customers whose only real relationship with the bank was as borrowers at razor thin margins. In the US, BZW has cut back from around 900 customers – most of them through loan syndications – to around 180; in Europe, it has pruned a customer list of around 800 to some 100 core relationships.

"By definition, lending is not something you want to do at all, but where you have a full house – where you are the merchant bank, the bond house, the corporate broker and all the rest – you will make significantly more, so you don't mind putting up your capital," says one senior BZW executive.

Nevertheless, BZW prefers to act as arranger for loans, and aims to keep much less of each loan than in days gone by on its own books.

Where companies used to strike a bank off their list for issuing a covered warrant on their shares, today they are much less sensitive. Almost all will allow transferability clauses in loan documentation, and relatively few corporate treasurers still believe that the only way a bank can demonstrate its commitment is by holding a large chunk of their debt, BZW executives say.

Reduced lending has a cost in revenue terms: net interest income declined from £349m in 1993 to £287m last year. With trading income still well below the bumper £615m recorded in 1993, expanding fee and commission income was enough to push BZW's pre-tax profits only to £286m, as expenses rose rapidly under the weight of expensive hirings and of preparing for a move to new headquarters in Canary Wharf, in the London Docklands.

As German and Swiss banks pour capital into their London investment banking businesses, competition has become tougher than ever. And these banks are big enough to ride out a dip in corporate finance activity.

"A sharp downturn in the UK could expose some of the smaller players, but among the big players, the sheer size of their balance sheets may make the weeding out process quite intractable," says BZW's Mr Seligman.

But BZW thinks it has now put together the right ingredients to come out on top of the pile.

George Graham

■ **Europe:** by Nicholas Denton and Michael Lindemann

Continental drift expected

This year may mark the peak of the M&A cycle in the UK, but there is still much activity

For European investment bankers there is one pre-eminent question: can deals in continental Europe take up the running as the scope for M&A growth in the UK is exhausted?

It may appear premature to call this year the peak of the UK M&A cycle. Activity in what is by far Europe's largest M&A market remains energetic.

The frenzy of deals in the UK electricity sector, capped by this month's US bid for Midlands Electricity, has swept up all but five regional electricity companies, out of the original dozen. Consolidation in financial services is continuing apace, with Lloyds Bank's takeover of TSB Group and Royal Insurance's merger with Sun Alliance.

The approach of a general election, either this year or next, is concentrating corporate minds. Investment bankers say they are encouraging companies, particularly those in regulated industries such as electricity, to do deals before the expected victory by a Labour party less sanguine about takeovers than the Conservatives.

However, this political boost, in so far as it merely advances deals, can be only temporary. Investment bankers expect the level of deals in the UK, which was $21.5bn in the first quarter, to fall in 1997. Some interpret the UK government's decision to block bids in the electricity sector as an augury. "What is happening now is what will happen after a Labour election victory," says the head of UK M&A at a US investment bank.

There are two other reasons why the UK may have already reached its peak. First, in the most active sectors there are few remaining targets. In pharmaceuticals, for instance, the takeover of Wellcome by Glaxo and Fisons by Rhône-Poulenc has left Zeneca as the last substantial takeover target.

Second, the UK corporate sector's cashflow has deteriorated. Services companies such as Reuters and Reed, and retailers such as GUS, Sainsbury and Tesco, are large generators of cash which have yet to do large deals. But "UK plc" as a whole suffered a £11bn outflow of cash as it went on its acquisition spree last year, according to an SBC Warburg study.

Investment bankers are therefore pinning their hopes on the restructuring of continental European conglomerates. In Sweden, the Wallenberg holding companies are shedding some subsidiaries and firming their grip on others. Incentive has sold Hasselblad, the camera maker, and SEU, the electricity utility. Investor, the other Wallenberg umbrella company, has floated 50 per cent of Scania, the truck maker. But it is above all to Germany that investment bankers are looking, and to its huge industrial conglomerates such as Hoechst, Daimler-Benz and Siemens.

Germany offers opportunity for advisers because the Anglo-Saxon notion of shareholder value has taken root, at least in the rhetoric of management. For those executives who truly put shareholders first, the dismantling of the over-extended empires of their predecessors is an inevitable conclusion. For the market capitalisation of many of Germany's *Konzerne* – its sprawling conglomerates – is that is considerably less than the sum of their parts.

A member of the management board at Veba, the electricity-based conglomerate, recently admitted that the group's worth could be up to 40 per ent higher but for the so-called conglomerate discount.

Thyssen, long a byword for steel and engineering in Germany, has similarly been told by analysts that it is labouring under a discount of about DM1bn on a market capitalisation of DM9bn.

The demerger of the German conglomerates will not happen overnight. Thyssen executives pour cold water on suggestions by their former chief executive that the group would have to consider a demerger before the end of the century. One says Thyssen diversified, most recently into telecoms, to achieve a "balance" and not be dependent on cyclical businesses such as steel and engineering.

Another executive describes most of the analysts' studies proposing demergers as "nonsense", in part because they took no account of the taxes payable on disposals.

But the restructuring of corporate Germany is already beginning. For instance, Veba has spun off its high-tech subsidiary in the US; Mannesmann has divested its process controls business – Hartmann & Braun – to the Italian-controlled Elsag-Bailey; and Hoechst has shed its Schwarzkopf shampoos business.

In a sign of its new ethos, Hoechst promoted its chief financial officer, Jürgen Dormann, to the post of chief executive. That, above all, has convinced Walter Gubert, head of JP Morgan in Europe, that the change is deep and irreversible.

"Germany is a country that has traditionally been run by engineers and technologists," says Mr Gubert. "Now at Hoechst someone is running the company for shareholder value. That is a revolutionary development."

In anticipation of growing corporate activity, European banks such as Deutsche Bank, Dresdner Bank, SBC and UBS are building investment banking business.

And Europe still has strong independent advisory houses such as Schroders in the UK, and the Lazard houses of London and Paris. Two traditional UK houses, Baring Brothers and N.M. Rothschild, advised on this month's merger of Royal Insurance and Sun Alliance. But US investment banks, as the evangelists of shareholder value, have proved well placed to win roles in some of the very largest mergers.

SBC Warburg and CS First Boston, two Swiss-controlled investment banks, had a web of board-level connections with Sandoz and Ciba-Geigy. But the two Swiss pharmaceutical giants turned to Morgan Stanley and JP Morgan of the US to develop their merger project.

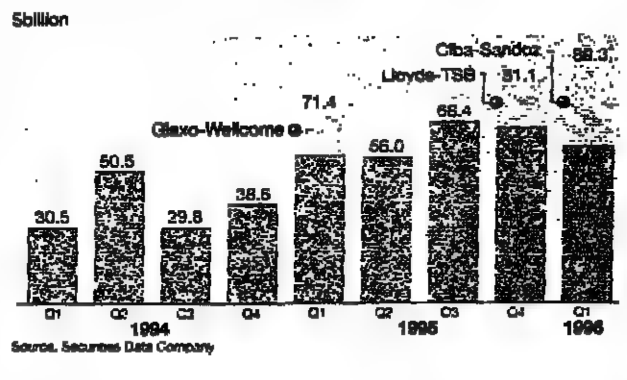
UK financial advisers - league table

Rank		1996 points	1995 points
1	SBC Warburg	126.0	128.5
2	J. Henry Schroder Wagg	108.5	119.0
3	Morgan Grenfell	98.5	94.5
4	Kleinwort Benson Group*	98.5	101.0
5	NM Rothschild	88.5	89.0
6	Samuel Montagu	85.0	84.5
7	Lazard Brothers	81.0	87.5
8	Baring Brothers	68.5	68.5
9	Hambros Bank	62.5	60.5
10	Barclays de Zoete Wedd	61.0	67.0
11	Robert Fleming	57.5	71.5
12	NatWest Markets Corporate Finance	55.0	53.5
13	Hill Samuel Bank	48.5	58.0
14	Greig Middleton	47.0	28.0
15	Charterhouse Bank	45.0	56.5

Source: Crawford's Directory

*Combined entries of Kleinwort Benson Ltd. and Kleinwort Benson Securities Ltd.

Total European M&A volume



Source: Securities Data Company

■ **League tables:** by Nicholas Denton

Jostling for a top table spot

For all the flaws in the listings system, there are few better available measures of performance

Philip Healey is a living embodiment of the power of league tables. Until 1984, he worked in the world of newsletters, rising to edit the quarterly M&A magazine of the Financial Times. Then, with his wife Susan, he set up a little business in Tunbridge Wells, the archetypal commuter town outside London. They kept track of mergers and acquisitions, and worked out which investment banks had advised on the most deals.

When he can spare the time,. Mr Healey now lunches with the heads of investment banks in London. They advertise in Acquisitions Monthly, the magazine produced by Mr Healey. Merrill Lynch has sponsored conferences organised by the group. Almost all large houses pay £18,000 for access to Amdata, a database of deals. Investment banks feel obliged to cultivate Acquisitions Monthly, and other league table compilers such as IFR Securities Data, despite all their criticisms.

There are many criticisms. Some are technical. Acquisitions Monthly, in an attempt to beat Securities Data to the post with the year-end table, closes to new deals early in December.

Acquisitions Monthly's main European league table covers only cross-border M&A, which misses out important transactions such as the mergers of Sandoz and Ciba-Geigy and Glaxo and Wellcome. Securities Data provides three different ways of looking at European activity, which can be confusing.

There are also some fundamental problems with league tables. Activity over periods as short as a quarter or half year can be completely dominated by one huge deal.

And the rankings do not reflect the complexity of the advisory work undertaken, nor the fees. When several advisers are involved on a transaction, it is hard to judge the relative importance of their roles, bearing in mind that investment banks fight for positions with one eye on the league tables.

For instance, JP Morgan and Morgan Stanley had a difference of opinion over the credit for advising TSB Group on its deal with Lloyds Bank. Morgan Stanley had advised TSB, but JP Morgan put the deal together.

When Morgan Stanley found out about the deal a few days before it was to be announced, it did a "fairness opinion" for the TSB board. It then sought to have its name, with that of JP Morgan, registered as a joint adviser to TSB. JP Morgan is said to have objected and ensured that Morgan Stanley was recorded on the announcement as an adviser only to the TSB board. While Acquisitions Monthly gave credit only to JP Morgan, Securities Data shared it between the two banks.

There are other tricks of the trade. One UK merchant bank succeeded in obtaining credit in two years for a deal which was announced in one year and completed the next year. After collapsing last year, Barings even sought to get credit for advising on its own sale to

Continued on page 6

Completed European target rank

Adviser	Value ($million)
1 JP Morgan	15,291
2 UBS	12,981
3 SBC Warburg	11,808
4 Morgan Stanley	11,749
5 Lazard Houses	11,682
6 CS First Boston/Credit Suisse	10,849
7 BZW/ Barclays PLC	8,139
8 ABN Amro Hoare Govett	7,887
9 Goldman, Sachs	5,730
10 Deutsche Morgan Grenfell	5,332

Source: Securities Data Company

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■ **Emerging markets:** by John Pitt

Confidence returns

The Tequila effect was a chastening experience for investors. But interest is quickening

Global emerging markets performance ($%)

		1996 YTD*	1996 1st qtr	1995
IFCI Latin America		8.61	4.74	-18.70
Argentina	Merval	3.72	-1.80	12.42
Brazil	Bovespa	14.32	13.41	-14.03
Chile	IPSA	-3.17	-5.70	-0.41
Colombia	IBB	-1.34	-2.24	-26.50
Mexico	IPC	22.10	13.08	-22.87
Peru	IGBVL	-4.40	-6.39	-17.63
Venezuela	BVC	37.99	44.19	-25.08
IFCI Europe/Middle East/Africa		2.73	6.41	19.49
Greece	Composite	2.37	7.38	6.30
Israel	Maof	-5.25	-4.20	17.19
Portugal	BVL	7.67	8.00	1.20
Turkey	Composite	35.98	41.96	-6.18
South Africa	Composite	-4.58	-0.76	3.03
IFCI Asia		15.93	9.53	-8.90
China	Composite	7.93	0.00	-12.98
India	SSE 30	23.57	11.63	-29.40
Indonesia	Composite	18.85	11.55	5.20
Korea	Kospi	4.97	-2.99	-12.24
Malaysia	Composite	19.32	15.73	3.00
Philippines	Composite	14.14	11.62	-12.75
Taiwan	TSE average	18.64	-2.23	-30.10
Thailand	Composite	3.46	0.44	-6.17
DJIA		8.49	9.19	33.45
S&P 500		4.49	4.80	34.11
FT World		3.84	3.58	18.73
IFCI Composite		10.15	7.07	-10.29

* Year to date (from January 1 to April 15, 1996) Sources: IFC, Lehman Brothers

The climate for investment in the world's emerging markets has improved markedly over the past two years, with the appetite for both equity and debt growing. Since the Mexican debt crisis at the end of 1994 confidence in this area has gradually returned to an even keel.

Reinhold Heuss, global head of corporate finance at ANZ, said that the Mexican crisis that had dried up some interest but that had now bounced back. He felt there would be an inflow of between $40bn to $60bn into emerging market equity during 1996, a figure that could increase between two and threefold if debt purchases were included.

Omar Bayoumi, head of emerging markets corporate finance at BZW, observed that emerging markets had gone through a tremendous boom in 1994 and the couple of years leading up to that had also been on an upward curve.

"The Mexican crisis and the subsequent Tequila effect certainly had a chastening effect on the investment community," he said. "But this came at a time when one had very strong markets among the mature economies, particularly in the US. There was certainly a switching of funds back out of emerging markets and into the more mature markets."

Maryam Mansoury, of Lehman Brothers, is another optimist on the outlook for emerging markets. In particular, she is positive about the prospects for Latin America during the second half.

"After severe recessions in Mexico and Argentina, as well as a slowdown in Brazil in 1996, Latin America is well positioned for further easing and economic recovery in the second half of 1996," she says. "The Mexican crisis and devaluation did not derail the course of reforms: if anything it intensified the process. Accordingly, pension reforms are under way or in the process of being implemented across the region to increase internal savings ratios and reduce high dependence on volatile savings ratios and reduce high dependence on volatile external capital flows. At the same time, deregulation in key infrastructure sectors is under way in order to attract foreign direct investment."

Mr Bayoumi at BZW feels that "generally investors have begun to look more closely at emerging markets again as the US market has begun to look toppy [volatile] during the first quarter 1996. Some people believe that they can get superior returns once again from the emerging markets and so there has been some portfolio switching once again."

One of the problems has been a substantial amount of money chasing a limited number of high quality primary equity issues.

Looking at debt, eastern Europe has become an exciting prospect, with the exception of Russia, with credit ratings in many of these countries improving rapidly towards investment grade. However, said Mr Bayoumi, lack of supply is again a big problem.

"There has been a steady flow of M&A activity in eastern Europe over the last year, and international institutions are now awaiting details of Poland's KGHM, the copper group, which is likely to be the equity deal of the year in Eastern Europe," says Mr Bayoumi.

The situation in Russia may improve, analysts believe, although events there will remain volatile until after the June presidential election. The rescheduling of more than $40bn of former Soviet debt with the Paris Club of sovereign creditors late last month will have helped.

Jerome Booth, at ANZ, summed up the mood among emerging market equity and debt specialists when he said that there had been a very good recovery after the Mexican crisis. With regard to Latin America, Mexico had once again become a good proposition, while an IMF deal with Venezuela was in the offing and there was a more positive economic picture in Brazil.

Over the next three to six months Mr Booth said a lot would depend on US Treasuries and what was needed was a period of stability. Nevertheless, there were a number of US investors who were looking for higher yields outside the US, and such individuals were being attracted into moving south into Mexico and other Latin American countries.

There was also a growing interest in more exotic emerging market countries' debt, he added, with a lot of volume being generated in north Korea, for instance. Vietnam was another interesting country, although here a proposed Eurobond issue had just been postponed. This had been done as the country worked out details of repaying the $830m debt owed to the London Club of commercial creditors.

The attitude towards winning mandates in emerging markets had altered, said Mr Heuss at ANZ. What was required now, he felt, was a "mono cultural" commitment, which he described as having corporate advisers from the same cultural background in the country in which they were working. For instance, in India a bank had to have a strategic commitment: companies were no longer interested in having teams of advisers flying in and then leaving just as quickly.

As the largest foreign bank in south Asia, said Mr Heuss, this was something ANZ was well equiped to do. Between 1989 and 1995, for example, ANZ arranged almost $1bn in cross-border finance in Pakistan.

"The advisory and balance sheet role were now going hand in hand," he said. "An adviser who is willing to put up money will increase the confidence of the client. This has led to a 'one-stop service': companies do not want an adviser giving advice without also taking on some of the risk."

Mr Bayoumi added: "The whole of investment banking is becoming more competitive and a lot of people have now identified emerging markets as an area they want to be in."

■ **Debt finance:** by Samer Iskandar

New trends in raising funds

The surge in loans last year was partly because cash-rich banks were eager to find borrowers

Last year's surge in acquisitions and the world-wide rally in fixed income markets boosted debt issuance to record levels and set new trends in corporate finance funding methods.

Syndicated loans benefited most, becoming the most important source of international financing. The volume of new syndicated credits reached $368.4bn in 1995, according to the Organisation for Economic Co-operation and Development, up from $236.2bn in 1994. Acquisition finance was a significant factor behind the surge in volumes, accounting for about $85bn, up from $30bn in 1994, according to Euroweek.

The surge in loans was mainly supply-driven. The return to profitability of leading European and US banks, combined with low demand for funds by European companies affected by the prolonged economic slowdown, made cash-rich banks eager to find borrowers.

On the demand side, borrowers were mainly attracted by the added flexibility (in most cases syndicated loans can be repaid on every interest payment date without penalties) and the relative speed – filing for a bond issue can take up to three months in the US. In some cases, syndicated loans made possible transactions that would not have taken place otherwise. For example, the FFr10bn cash portion of Crown Cork and Seal's $4bn acquisition of Carnaud Metalbox, the Anglo-French packaging company, could probably not have been financed on the bond markets. An issue of that size would have been impossible to place with investors in France, where the borrower was virtually unknown and the swap market was not favourable for the issuance of US dollar bonds whose proceeds would be swapped into French francs.

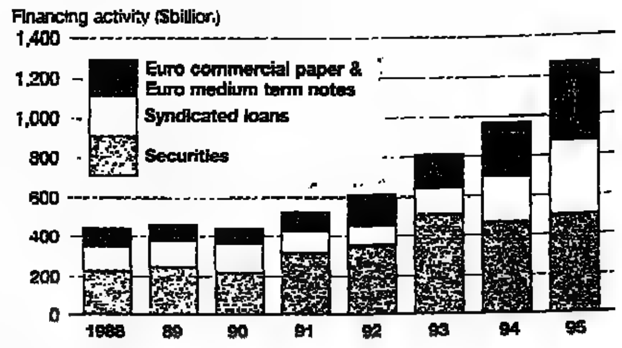
The year looked promising for the euroloan market. Glaxo set the trend in the first weeks of 1995 by raising an impressive £8.1bn to fund its acquisition of Wellcome, paying a margin of 20 basis points for a 3.5-year revolving credit granted by a group of nine banks. Cadbury-Schweppes followed, borrowing $2.4bn to fund the acquisition of Dr Pepper/Seven Up.

But corporate finance activity really picked up in the fourth quarter, with the large-scale re-organisation of the UK electric utility sector.

Meanwhile, the summer of 1995 saw the takeover of Capital Cities/ABC by Walt Disney for more than $19bn, the largest acquisition since KKR's $25bn bid for RJR/Nabisco in 1988. More than half of the amount, around $10bn, was raised through bank loans, allowing Disney to proceed with the transaction and worry about permanent financing later. In March 1996, Walt Disney refinanced part of the loans, $2.6bn, by issuing two tranches of five and 10-year global bonds.

> Investment bankers believe bond markets still have an important role

International capital markets



Source: OECD/DAF

Improving market conditions for borrowers have progressively led companies to view syndicated loans as a final source of funding, as opposed to the more limited role of bridge financing. And this trend is likely to persist, as cash flow increasingly becomes the main consideration in mergers and acquisitions.

But despite syndicated loans' growing market share in acquisition financing, investment bankers believe bond markets still have an important role to play. One US mergers and acquisitions analyst points out that last year's squeeze on the pricing of syndicated loans has unduly favoured lesser credits.

"Lending banks have to reconstruct their margins. They will continue to take Triple-A exposure on their balance sheets with limited margins, but they will have to find compensating income. This will almost certainly be done by directing less important clients to the bond markets," he said.

Indeed, competition among lending banks significantly reduced the margins offered to high-profile borrowers. JP Morgan, the US bank, arranged for Siemens of Germany a 7-year stand-by facility of $2bn at a margin of 10 basis points for the first five years, and 12.5 basis points for years six and seven. Siemens, which had no immediate use for the funds, took the facility nonetheless, convinced that it was locking-in financing at rates it was unlikely to see again in the near future. Not more than 18 months ago, the standard margin charged to a borrower with Siemens's financial profile would have been in the 20 basis point area. Commitment fees, which traditionally stood at 50 per cent of the lending margin, were also scaled down. In 1995, fees of around 40 per cent became the norm.

Market participants predict a fall in debt underwriting this year, partly because of an expected slow-down in acquisition activity, but also as a result of the particularly advantageous market conditions in 1995, which encouraged large companies to refinance existing loans and build up substantial reserves. But some deals are expected to emerge as a fall-out of last year's transactions, as newly-merged companies rationalise their operations and possibly spin-off non-strategic subsidiaries. This view was reinforced last month when Rhône Poulenc, the French chemical group, announced a restructuring of its pharmaceutical operations, a decision that was directly linked to the acquisition of its British rival, Fisons, in October 1995.

Spin-offs are likely to boost another market segment – equity-linked instruments, and convertible bonds in particular. Issuing bonds convertible into shares of the target company is a relatively cheap way of financing the acquisition. This method has been used by companies seeking a simple majority in their prey, but forced to bid for all outstanding shares. The bidder can also issue bonds convertible into its own shares to fund an acquisition, which one investment banker defines as "a capital increase in disguise". This method was used by Japanese banks when the slump in share prices deprived them of access to the stock market.

Since most refinancings were finalised in 1995, demand for funds this year is likely to match corporate finance activity more closely. This might increase competition among banks to fund specific operations, thus further pressuring margins and fees. However, recent data from the US and Japan seemed to confirm signs of an upturn in economic activity. If this trend were confirmed, available liquidity for syndicated loans could decline as banks turn to financing their traditional customers' expansion needs.

SOUNDBITES **Compiled by Nicholas Denton**

Matters of opinion

The big question is who are going to be the five banks [in the world]. The client base is going to be segmented between the international companies and the rest. I can see a mid-market business developing focused on smaller M&A deals. – *Head of UK mergers and acquisitions for a US investment bank.*

When you see a deal like that between Ciba and Sandoz, people do start to think the unthinkable. A merger between BT and Cable & Wireless would have been inconceivable a few years ago. – ***Guy Dawson, Merrill Lynch.***

Cash has been piling up in UK plc. That money is going to be spent in the US and continental Europe. – *Ken Costa, SBC Warburg.*

There may be an awful lot of activity at the moment. But some of these projects are being pushed along artificially fast because of election worries [in the UK]. And there is the danger of a market crash, which would cause a lot of deals to just go out of the window. The second half of this year will be quite a testing time. - ***Head of corporate finance at a UK investment bank.***

You can't be too concerned about the cycle. You have to look longer term. The danger for those expanding is that, by the time they have people in place they have missed the action, and they have to cut back. – *Malcolm Le May, UBS.*

Life for ordinary bankers is pretty boring. The head of each group gets to do all the hobnobbing with CEOs and the rest just deal with the technical stuff. You can be in your late 30s and still have no real experience of putting together a deal. – ***Former investment banker.***

John Studzinski: the industry is going from strength to strength

The industry is going from strength to strength. But anyone who has been long enough in the M&A industry knows it would be naive to assume the current boom will go on for ever. It will continue in Europe for the next 12-18 months. There is still an extraordinary amount of inquiry about the logic of mergers. – *John Studzinski, Morgan Stanley.*

The top graduates coming out of Oxford and Cambridge all used to want to go to Lazard or Warburg. But now Goldman Sachs, Morgan Stanley and JP Morgan are just as prestigious. They promise a secure career path. – ***US investment banker.***

Mega-mergers depend on the management dynamic. Companies can be of similiar size and complementary. But if both managements are ambitious and about the same age, it is not always easy to fit them together. – *Guy Dawson, Merrill Lynch.*

Jostling for a table spot

Continued from page 4

Internationale Nederlanden Groep, the Dutch bank.

The final drawback to league tables is the extent to which they are subject to interpretation.

Investment banks can "slice and dice" the figures to make themselves look better. For instance, if an investment bank advises on a large acquisition in the US by a European company, it can make its position in Europe look better by citing its position in the Securities Data table which measures all deals into, out of, or within Europe. In fact, this flexibility is the big selling point of the Amdata information. It allows an adviser to calculate its position in pharmaceuticals deals, for instance, to highlight its strengths in a particular sector.

But, for all the flaws in league tables, there are few better objective measures available of a corporate finance department's performance. Fees for individual deals are generally confidential. The Crawfords Directory of City Connections records a company's traditional relationships with investment banks. Increasingly, a company turns to an adviser outside this circle to do a deal.

The league tables are the best of a bad bunch. As long as that is the case, investment banks will continue to care about them, and invite Philip Healey for lunch.

■ **Risk management:** by Brian Bollen

Derivatives remain on the menu

Treasurers who can be damned if they hedge, can be damned just as much if they do not

Derivatives are alive and well. Their disappearance from the headlines owes more to media boredom with the subject, rather than to any lasting fall from grace

Figures from the International Swaps and Derivatives Association indicate that swaps and other privately-negotiated derivative transactions outstanding at the close of 1995 grew 29.18 per cent from six months earlier. "Contracts outstanding for interest rate swaps, currency swaps and interest rate options grew from $13,920bn as of June 30 1995 to $17.99 trillion on December 31 1995," says the ISDA. "The comparable notional amount of transactions outstanding at the close of 1994 was $11,300bn."

High profile losses at Baring Brothers, Procter & Gamble, Orange County and others, combined with more routine but still expensive setbacks as the international bond markets fell, blackened the name of derivatives, seemingly permanently and arguably unfairly.

Although Credit Suisse Financial Products has blamed the Barings collapse and other scandals for a decline in some markets, bankers elsewhere see reasons to be cheerful. Even Bankers Trust – which since being sued by Procter & Gamble in 1994 following losses on derivatives transactions has been on the receiving end of much of the non-Barings bad publicity – seems to be weathering its own particular storms. The matter was settled out of court after a US federal judge gave two rulings in Bankers Trust's favour on the disputed contracts, although at this stage Procter & Gamble still plans to proceed with a misleading sales practice case. The bank has also been winning plaudits for making available to clients its Raroc 2020 system, which analyses risk and measures how effectively capital is being deployed.

The irony is that while the reputation of derivatives in the eyes of the man in street has never been lower, the extent to which even he is using them has never been greater. From fixed-rate mortgages to index-linked building society savings accounts, derivatives are seeping through into everyday use in increasing volumes.

In at least some banks, though, derivatives products might today go under a slightly different guise. While some salesmen are unreconstructed derivativists, and are not afraid to say so, others are more likely to style themselves as specialists in risk management (on the liability side of the balance sheet) or relative value specialists (on the asset side).

For the moment, the emphasis has shifted firmly away from what some term the abuse of derivatives in the early 1990s, the way in which their capacity for leveraging could turn a mild tendency to speculate into an irresistible urge to bet the company. "Derivatives are now being used in the way they were meant to be used, to tailor risk, to minimise risk," says Bill Winters, the London-based regional head of JP Morgan's fixed income business in London. "The market has even gone back into structured transactions, although structured today means tailoring rather than leveraging."

Taking risk off rather than putting it on is the key for corporates today. Firmly in the past are the days of smiling

Tim Pettit: a positive reaction to the derivatives backlash

blissfully as profits poured in from leveraged, speculative instruments which they did not understand and whose potential dangers they failed to appreciate. The likelihood of an employee abusing derivatives in the name of his or her employer has in theory been much reduced as directors have woken up to their responsibilities to manage and control.

The change in the environment was well under way, say bankers, before the collapse of Barings, and dates back to the G30 think tank report on derivatives in 1993. This independent committee proposed a list of 20 recommendations for good corporate practice in risk management which has influenced the market ever since.

Even at the height of concern, corporates never stopped using derivatives. Their approach to the subject has, though, certainly changed. "In general, the reaction of corporates to the derivatives backlash has been positive," says Tim Pettit, head of debt and derivatives marketing at NatWest Markets in London. "A welcome tightening in internal controls has been accompanied by an increased understanding, and a greater level of disclosure. As companies learn to appreciate better the risks and opportunities associated with derivatives, they become more interested in even the more exotic products, provided they clearly meet a genuine risk management need."

"Derivatives are not a four-letter word," confirms the head of international funding at one leading corporate. "Despite the adverse publicity, we have been actively using derivatives in a very controlled fashion for many years to support underlying trade. Used properly they are a good thing. In the past, some companies might have used them for speculative purposes, without their bosses fully understanding them or controlling their use. There is greater awareness today of their function and the need to control them. More attention is being paid to who is using derivatives for what, and to counterparty exposure."

As relationship banking grows in popularity compared with transaction-based banking, and companies become more willing to grant access to the most detailed confidential financial information, the chances increase of achieving the Holy Grail.

"The better you know your client, the more you can not only tailor the products to his needs, but anticipate those needs," says Ms Leslie Grant, global head of FX Risk Management Advisers at SBC Warburg in London.

A feature of the new holier-than-thou climate is the increased popularity of training offered to clients by banks. "We are continually running seminars for clients, says one banker. There is huge demand; they are better attended and taken more seriously than ever." Further helping to clarify what can still be very muddy waters is JP Morgan's highly regarded RiskMetrics statistical tool, which was first made available to corporate clients in late 1994.

Better education and greater transparency mean that corporates can now reassess their appetite for risk from a position of knowledge and of power. The conundrum for treasurers, though, is a familiar one. Risk is an inescapable fact of business life, and even deciding to do nothing can be construed as speculation. Treasurers who can be damned if they hedge, can be damned just as loudly if they do not.

■ **Equity finance:** by Antonia Sharpe

British tradition lives on

UK financiers believe that smooth sub-underwriting is the key to a successful takeover

US investment banks have had considerable success in imposing their way of doing things on European equity capital markets – notably the widespread adoption of the "book-building" process for international equity offerings – but the resurgence in M&A activity in the UK over the past year shows that the quintessentially British tradition of underwriting equity financings is as strong as ever.

The most significant equity underwriting in this period was for Granada, the leisure and television group, which made a hostile but successful bid for Forte, the hotel and catering company.

The £1.8bn of new equity capital needed to finance the £3.8bn final offer was provided mainly by BZW, the investment banking arm of Barclays Bank, and ABN-Amro Hoare Govett, the corporate broking arm of the Dutch bank, which underwrote 42.5 per cent each, while Lazard Brothers took up the remaining 15 per cent.

The scale of the operation – the largest share issue underwritten for cash in any bid since Big Bang in 1986 – not only enhanced the reputations of the banks involved as institutions which were prepared to use their balance sheets to help their clients (the two banks had also provided two-thirds of a £2.5bn loan) but it also highlighted the benefits to clients of "integrated" banking services.

But although the media spotlight fell on the banks, the real risk-takers were the UK institutions which had been called upon to "sub-underwrite" the cash underpinning. Within hours of Granada announcing the bid for Forte, BZW and Hoare Govett had used their powerful equity distribution networks to lay off their risk to more than 300 institutions.

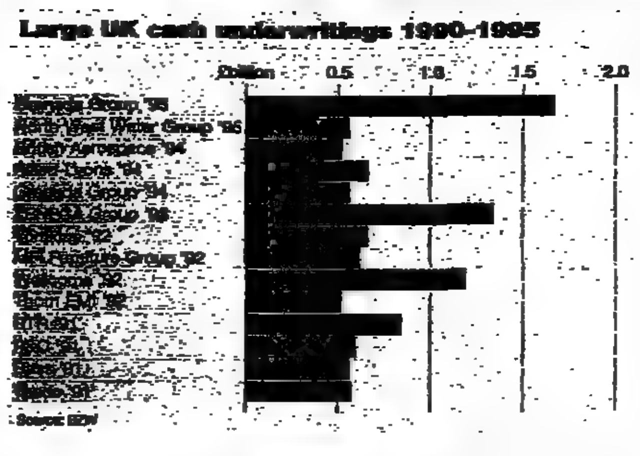
UK institutions, unlike their counterparts in the US, are experienced sub-underwriters, a function which can considerably enhance their return on funds. They are paid an initial fee of some 1¼ per cent plus additional fees as the offer period progresses.

In the eyes of some observers, sub-underwriting in many cases is "money for old rope" since the institutions will have to take on the new equity anyway to prevent their existing shareholdings from being diluted. In addition, they are only called upon to take up the shares if investors elect for cash rather than shares in a bid situation. Historically, the proportion of those going for the cash alternative is not that high.

Nevertheless, UK corporate financiers maintain that smooth sub-underwriting is the key to a successful takeover. They have to take care to place the sub-underwriting risk with institutions which want to hold the stock so that there is no drag on the share price of the bidding company. "Here lies the success of underwriting to a bidder," says Nigel Mills, managing director of UK corporate finance at ABN-Amro Hoare Govett.

The price certainty of the underwriting method allows the predator to concentrate on presenting its investment case to the market. In the case of Rentokil's takeover of BET, the underwriting of the £1.4bn cash underpinning the offer was so effective that Rentokil's share price rose, which meant that the final offer was underwritten at a higher price.

Large UK cash underwritings 1990-1995



Given the high level of secrecy necessary in M&A situations, particularly if they are hostile, and the tradition in the UK of having the financing in place before making a bid, the underwriting method is set to remain an integral tool in this field. The alternative – book-building – would, through its more open "price-discovery" process, give the game away and leave the share price of the bidding company vulnerable to arbitrageurs.

However, the practice of underwriting and sub-underwiting more straightforward equity-raising exercises, namely rights issues, could be weakened as a result of the increasing competition in investment banking. US banks maintain that using the book-building method to raise equity is cheaper for companies because it enables them to issue the new shares at or close to the market price.

By contrast, the traditional UK rights issue formula obliges companies to sell the new shares at a discount of between 12 and 15 per cent to the market price because of the existence of "pre-emption" rights. This age-old principle, enshrined in British company law, gives existing shareholders the right to be offered the new shares first.

Some banks are attempting to reduce the impact of pre-emption rights on equity financings by promoting vendor placings. The difference would be that existing shareholders would have the right to subscribe an amount in proportion to their holding as opposed to a number of shares at a discount to the prevailing share price.

While bankers agree that the removal of pre-emption rights would lower the cost of equity financing for large companies, in their view it would make it significantly more difficult and costly for middle- to small-sized companies or for companies in trouble.

It remains to be seen, however, if a big company is willing to become the first to attempt to raise equity on this basis. The merits of pre-emption rights have been the subject of debate since before Big Bang but because institutions jealously guard their rights, and a change of law is necessary to remove them, any hopes of their early demise are unlikely to materialise.

However, one can expect some erosion of the underwriting commissions charged by banks which will have an impact on the sub-underwriting commissions earned by institutions. UK companies are charged fees of 2 per cent of the value of the capital raised, regardless of the quality of the issuer or market conditions.

The UK's Office of Fair Trading is attempting to break this system of fixed commissions which banks charge companies for raising money on the stock market, a system which it believes results in companies being significantly overcharged. It will decide by the autumn whether to refer the matter to the Monopolies and Mergers Commission.

■ **The role of accountants:** by Jim Kelly

Still in the junior league

While the role of banks is unmatched, accountants have found a gap in the market

The Big Six accountancy firms are under increasing pressure to find new sources of income as traditional cash flows from auditing and insolvency tighten. Most firms now hope to increase their share of the corporate finance market.

But claims of a significant breakthrough in this area should be viewed with caution. The track record of the big merchant and investment banks is unmatched and they alone have the resources to underwrite the big deals. Until accountants can find a way of calling on similar financial muscle they are always going to be in the second league.

"We are playing an increasing role but the banks have a huge track record. They alone can put their money where their mouths are," says John Harley, head of M&A Europe for Price Waterhouse, the Big Six accountancy firm. But the junior league is a lucrative one nonetheless, and an expanding one. When the firms began looking at the market in the mid-1980s deals at around £10m made headlines. Today the deals are touching £100m.

In truth, the size of the deals is not crucial to most of the firms. Rather, it is the fact that they can begin to offer some clients a range of services unimaginable a decade ago. This further excursion into the world of the all-round business adviser makes the market very attractive.

The league table of corporate finance by the value of deal, compiled by Acquisitions Monthly, puts Ernst & Young as the highest placed accountancy firm in 1995 at 18th on £1.9bn with Barings Brothers, by comparison, first with £19.5bn. Only one other firm, KPMG, makes the top 20.

But Mr Harley points to European adviser rankings compiled by Securities Data Company which shows in 1995 that KPMG and Price Waterhouse held the top spots by the number of deals – with 136 and 118. SBC Warburg was third with 109 deals – but at a value of £32bn compared to Price Waterhouse's £3.4bn and KPMG's £2.4bn.

Richard Stone, of Coopers & Lybrand, believes acquisitions of merchant banks by commercial banks in recent years has resulted in an increasing focus on the Fortune 500 client – leaving a gap for the large accountancy firms. He believes Coopers can service the middle market and companies with a turnover of up to £300m.

Progress in the market is dependent on international links between the national firms. With differing regulations, business cultures, and stages of development, the challenge is to provide clients with cross-border services of a standard quality. But Mr Stone believes the problems can be overcome: "I would have hoped corporate finance business within five years could provide 12-15 per cent of revenues," he says. What is more, they will be providing profitable revenues with a high value added content for the client. Neil Lerner, head of corporate finance at KPMG, says it is the firm's achievable target to be the adviser of first choice to companies up to a £250m capitalisation. He says the accountants have moved into a market deserted by the big houses. "This has left a vacuum. Accountancy firms have more credibility and capability in this area than traditional merchant banks." Mr Harley adds: "Second and third tier banks and stockbrokers are losing market share to us."

The distinguishing feature of the big accountancy firms is their presence, in numbers, on the ground. This has been a factor behind the increase in market share in the provincial UK market as the merchant banks pulled out of centres such as Leeds, Newcastle, Southampton, Birmingham, and Manchester. UK staff of the Big Six firms approaches 30,000 in more than 150 offices.

They have a similar advantage in emerging markets where all the Big Six have invested heavily. "We see this as a global business – the Big Six have offices in these countries, contacts on the ground, and thus better coverage than the investment and merchant banks," says Mr Harley.

European adviser rankings by number of deals (1995)*

Rank	Adviser	No of deals
1	KPMG Peat Marwick	136
2	Price Waterhouse	118
3	SBC Warburg	109
4	Deutsche Morgan Grenfell	86
5	CS First Boston/Credit Suisse	65
6	Rothschild Group	64
7	Lazard Houses	59
8	Goldman, Sachs	57
9	Schroders	52
10	Morgan Stanley	47
11	Lehman Brothers	46
12	Banque Paribas	40
13	Baring Brothers	36
13	UBS	36
15	JP Morgan	35
16	Kleinwort Benson	34
16	BZW/Barclays	34
18	Merrill Lynch	33
19	ABN Amro Hoare Govett	31
20	Broadview Associates	28
21	Ernst & Young	23
22	Charterhouse Bank	22
23	Hambros Bank	21
24	Samuel Montagu/J. Capel/HSBC	19
24	Coopers & Lybrand	19
24	Salomon Brothers	19
	Deals with adviser	1,170
	Deals without adviser	4,812
	Industry total	5,982

* Deals completed or unconditional, excluding split-offs and spin-offs. Source: Securities Data Company

The range of services offered by the Big Six has consistently increased. Early breakthroughs into the market were centred on management buy-outs and privatisation work – with Coopers & Lybrand picking up the significant work associated with the privatisation of British Telecom.

Mr Lerner points to continuing breakthroughs in corporate finance for accountants. Due to changes in professional rules the firms can now sponsor companies – or handle new issues. KPMG claims to be the first to grasp the opportunity with its sponsorship of Rubicon's takeover of Calder Group. Accountants have also taken the opportunity to sponsor, or to nominate, several companies on the new UK Alternative Investment Market or AIM.

"But the City will only wake up when accountants bring a new issue of a manufacturing, or good service company, to the market successfully," says Mr Lerner – and that is still in the future. "We are not worried about being first. The first one will do us all a favour."

Mr Lerner sees several advantages for clients in using KPMG before a merchant bank. While clients increasingly come from outside an existing audit base the firms nevertheless have a unique insight into a business. Mr Lerner says KPMG is targeting possible floatation candidates now for two or three years down the line.

There is also a culture factor. Mr Lerner believes many companies are put off by the "marble halls" image of the merchant banks and see accountants providing more down-to-earth services at a better price – and the high-profile of the work means there is little chance of a firm "low-balling" on price to simply get the work.

Above all, accountancy firms see themselves as having an edge in providing advice independently of a deal – insinuating at the very least that some clients suspect the merchant banks of being interested in any deal which will bring them fees. The merchant banks strongly deny any such motives. While there is undoubtedly fierce competition between the firms and the banks they ultimately work together more often than apart – especially on the bigger deals. Open warfare is in no one's interests.

The individual still counts

Investment bankers are less colourful than they once were. There are few stars and even fewer who would proclaim themselves as such. Investment banks tend to be cautious about putting executives in the public eye. It complicates their internal politics, and creates the impression that the business is dependent on a few individuals.

Old-timers complain that the advisory business has been taken over by technicians. As more and more deals are within industries, so expertise in the economics of a particular sector commands a premium. While the archetypal dealmaker of the 1980s would have known the key corporate raiders and the tricks of financial leverage, the industry specialist of the 1990s must think like an executive of the clients he or she represents.

But the decline of the individual can be overstated. Investment banks still need to promote their leading executives so that potential clients will be impressed. Those institutions seeking to break into investment banking – the ultimate people business – have tended more often to buy people than businesses. Individuals still count, and some of them are profiled on this page.

Eduardo Mestre/Salomon Brothers and **Brian Finn**/CS First Boston

It's the bank, not the adviser

Eduardo Mestre, co-head of Salomon Brothers' investment banking division, advances an argument commonly heard from New York investment bankers. These days, he says, it is the name of the bank, not the individual adviser, that carries the most weight.

"We're all trying to institutionalise our businesses. The [individual] dealmaker does not matter so much any more," he says, showing discomfort at being pushed into the limelight personally. Perhaps, but it is also the track record and contacts of individual dealmakers that bring in the business.

A Harvard-trained lawyer, Mr Mestre has made his name in the telecommunications industry. His association with the sector started early. In 1982, he was part of the team that advised on the break-up of AT&T – an assignment that was followed by five years running Salomon's telecommunications group. Since then, Mr Mestre has advised all seven of the Baby Bells, along with AT&T and GTE.

The Cuban-born banker says he now does "two or three deals a year", and spends half his time helping run Salomon's investment banking operations.

That has included advising Pacific Telesis on its merger with SouthWestern Bell, the first of the deals likely to transform the US's local telephone companies.

At 47, Mr Mestre looks positively elderly compared to the new generation of bankers which has risen to prominence on the 1990s' takeover wave. It is not surprising that he finds virtue in age: "I think you're going to find an ageing of the investment banking community. That's what the clients want – people who have been around a while," he says.

He attributes his staying power in part to a disciplined approach to work which sees him seldom work at weekends. He spends much of his free time out of the city, with his family. "If you take time off, you don't burn out," he says. "I look at some of the younger guys and I wonder about them sometimes."


Eduardo Mestre: made his name in the telecommunications industry

Affable with a naturally low-key style


Brian Finn: 'In my world, there's no benefit to being young'

Brian Finn has just turned 35 – something of a relief, it seems. "In my world, there's no benefit to being young," says the co-head of mergers and acquisitions at CS First Boston.

An affable man who professes a naturally "low-key" style, Mr Finn can counter any concerns about his youth with a surprisingly extensive resumé. He points to some $200bn worth of transactions he has worked on in the 14 years he has been at bank.

They include, recently, advising Seagram on its acquisition of MCA and International Business Machines on its rare hostile bid for Lotus. His experience stretches back before the 1980s' takeover boom, when Mr Finn learned the trade at the feet of former First Boston "stars" Bruce Wasserstein and Joseph Perella.

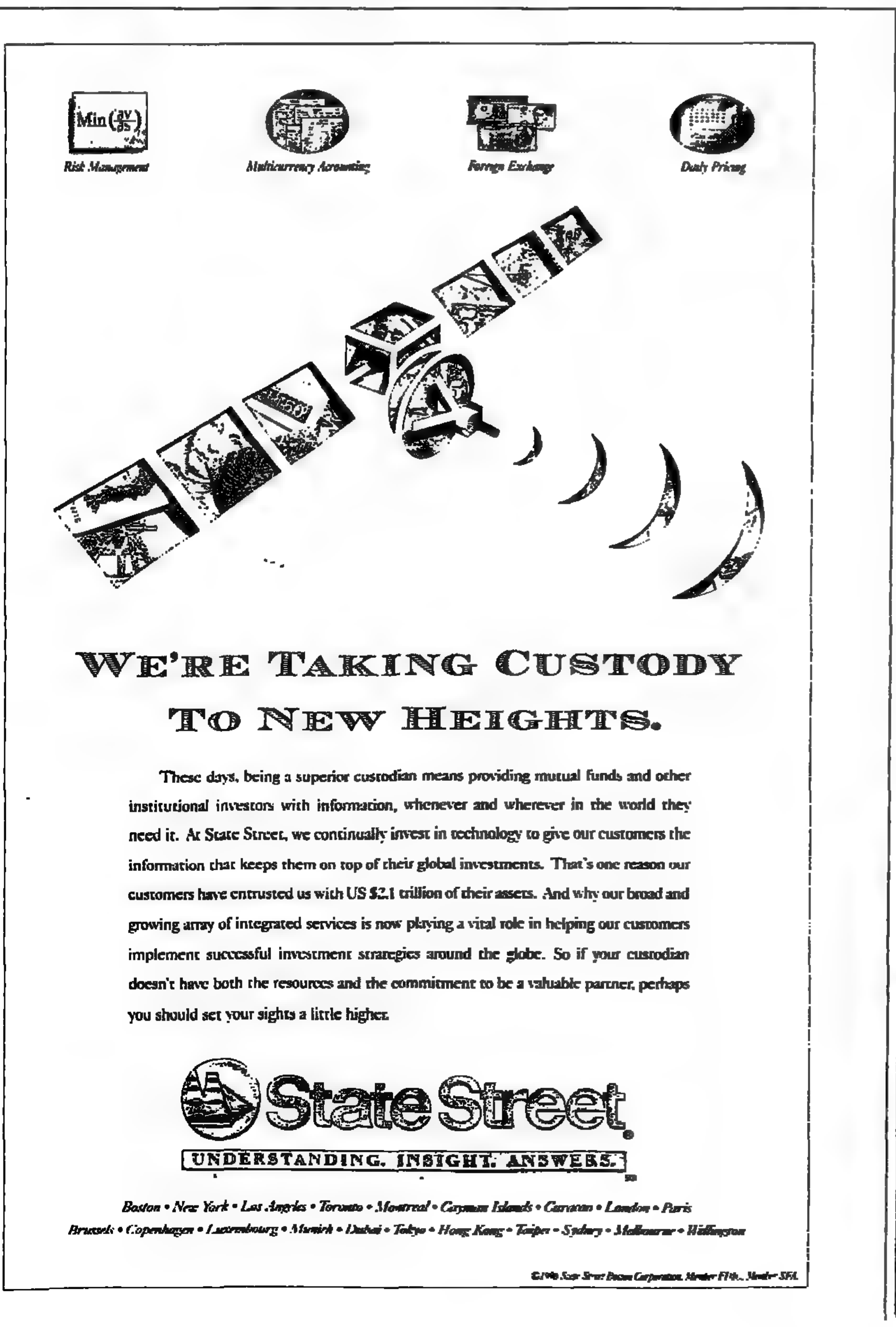
That history of deal making at First Boston is one of the main reasons that the Swiss-owned bank remains in the front ranks of M&A advisers, Mr Finn adds.

"There's a franchise that is clearly above and beyond the humans," he says. "The humans may not like it that way, but the brands and the franchises carry on."

That emphasis on the bank, rather than on the individual, and the understated style, fit with what Mr Finn says has been "something of an anti-star backlash" among Wall Street's customers.

Unlike most members of the new generation of advisers, Mr Finn is not an industry specialist. Besides Seagram and IBM, recent clients have included WR Grace and Praxair. If there is any particular type of deal in which he specialises, it is the corporate spin-off and restructuring. That has included, most recently, advising Baxter International on its split into two companies, and the creation of separate classes of stock for the giant cable TV operator TCI.

Richard Waters



Simon Borrows/Baring Brothers

An enthusiasm for organisation

There was a time when corporate financiers who could, did deals; and those who could not became managers. And at Baring Brothers, the quintessentially English merchant bank, the disdain for administrators was particularly strong.

That is why Simon Borrows is exceptional. For Mr Borrows, although he works with clients such as Whitbread, reserves his particular enthusiasm for organisation. "I am stimulated by the management role. I think it is what most corporate finance departments had lacked," he says.

And it is an aptitude which has won him promotion, at the age of 37, to joint head of corporate finance, alongside Charles Irby. He has also gained a seat on the global management committee which has run Barings since it was taken over last year by Internationale Nederlanden Groep, the Dutch bank.

Unusually for a UK corporate financier, Mr Borrows has a management education. He took an MBA course at the London Business School after reading law at the University of London.

He joined Morgan Grenfell in 1985 when the house was the premier takeover adviser and M&A activity was booming. "In those days, people were pleased if we would act for them," Mr Borrows recalls.


Simon Borrows: 'I am stimulated by the management role'

In 1988, after the scandal surrounding the takeover of Distillers by Guinness, Morgan Grenfell's client, Mr Borrows left for Barings.

He worked with clients such as Whitbread, M&G and 3i, but came into his own when Barings lost £830m on Far East derivatives markets and collapsed.

Colleagues credit Mr Borrows, among others, for holding the corporate finance department together through the turmoil.

It continued to work on Wellcome's defence against the bid by Glaxo. Not a single director abandoned the team, and only one significant client.

As well as providing an opportunity for Mr Borrows to demonstrate his resolve, the collapse, like a war, accelerated the rise of junior officers. Mr Borrows was due in any case to become joint head of the department. But younger executives were no longer in the shadow of Andrew Tuckey, the power in the corporate finance department and deputy chairman of the group, who had to resign. In the turmoil, influence shifted to younger executives such as James Lupton, Barings' star deal maker, and Mr Borrows.

An admirer of Goldman Sachs's marketing prowess, he has borrowed heavily from the strategy and organisation of the US investment banks. The specialist corporate financier, allocated to one of 10 "industry groups", has become more common than the traditional generalists of UK corporate finance. Directors have priority marketing lists of clients and are scored, not just for the deals they do, but for the relationship they have developed with a target company.

For Baring Brothers, where performance was judged by instinct as much as anything else, this scientific management is all a bit rigorous. Mr Borrows' reforms might have even been traumatic but for last year's cataclysm. For all its damage, it has softened up the organisation for change.

Walter Gubert/JP Morgan

The ultimate European


Walter Gubert: German, Italian and French credentials

There are few better embodiments of JP Morgan's European credentials than Walter Gubert, the head of the US bank's business in the region. Mr Gubert, 48, is the ultimate European. Brought up in the Trentino, the Italian region that abuts Austria. Mr Gubert is a mixture. His mother tongue is German, his nationality Italian, and he was educated at Insead in France, where he took an MBA.

His position backs JP Morgan's claim to be the most European of the US banks. It has had a Paris office for more than a century.

"We are part of the fabric," Mr Gubert says. And Europeans are part of JP Morgan's fabric. A UK national, Dennis Weatherstone, was group chairman before the present holder, Sandy Warner.

But JP Morgan, for all its European connections, was primarily a commercial bank in the region until a decade ago. As JP Morgan has turned itself into an investment bank competing with the likes of Goldman Sachs, it has been Mr Gubert's job to achieve that transformation in Europe.

After running capital markets in New York in the early 1980s, he returned to London and took charge of the bank's embryonic advisory business in 1989. Building that has been a slog.

The bank had to develop expertise in particular sectors, partly because it believed that is what clients wanted and partly because it had little else to show.

"We didn't talk about our track record because we did not have one," says Mr Gubert. And Alcazar, the proposed European airlines alliance which was a personal and time-consuming project, was stillborn.

But in the past two years, most competitors concede, JP Morgan has broken through in M&A in Europe. Terry Eccles, the head of the financial institutions group, has dominated the transformation of the building society sector in the UK. And, in a deal at the heart of the Swiss business establishment, JP Morgan advised Ciba-Geigy on its merger with Sandoz.

The growth of JP Morgan's corporate finance business propelled Mr Gubert into the role of head of Europe vacated by Sandy Warner when he took over the group. Mr Gubert also attends the monthly "house arrest" meetings attendance at which is compulsory for the top 12 executives of the bank. But he is not there yet. JP Morgan has set a target of a further doubling of underlying European revenues by 2000.

George Feiger/SBC Warburg

Academic with a cutting edge

There is no doubt that George Feiger, head of investment banking at SBC Warburg, knows about the theory of integration. Until Marcel Ospel brought him in to organise the fusion of SBC's investment banking business with S.G. Warburg, Mr Feiger was an academic and management consultant.

An eerily youthful 46-year-old, he was brought up in Australia, but took his PhD in economics at Harvard University, remaining there as a junior fellow. A subsequent stint as a professor of finance at Stanford University's business school helped him produce one of the leading textbooks on international finance.

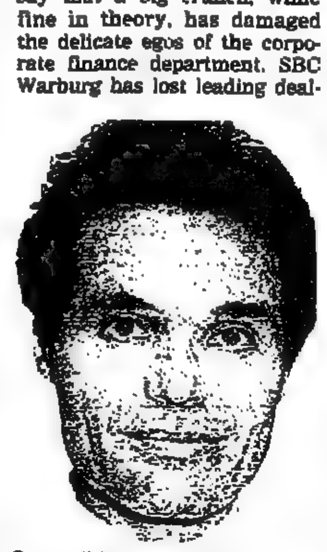
A move into management consultancy in 1981 brought Mr Feiger closer to the actual business of investment banking. As a director of McKinsey, based in London, Mr Feiger helped financial institutions develop their strategies.

But Mr Feiger, semi-detached from the clients he often worked for, could still afford to question their penchant for acquisitions. A popular conference speaker, he led off with slides showing that target company shareholders benefited massively from acquisitions, and the bidder barely at all.

He began working in December 1994 on a strategy for SBC which led to the acquisition of S.G. Warburg for £860m in June 1995. Marcel Ospel, who became chief executive of SBC Warburg, was so impressed that he took him on to the payroll to implement the merger and then to head investment banking.

The integration of SBC and Warburg, and the cutting of 1,400 jobs, was done by the management consultant's textbook: quickly and decisively.

But some former colleagues say that a big crunch, while fine in theory, has damaged the delicate egos of the corporate finance department. SBC Warburg has lost leading dealmakers such as Mark Seligman, Michael Tory and Philip Yates.


George Feiger: 'we are on a treadmill here'

SBC executives have said they underestimated the tensions within Warburg's corporate finance department before the takeover. And Mr Feiger concedes he would have, with the benefit of hindsight, done some things differently.

But he makes no apologies for the speed of the fusion. He is one of the most passionate and articulate exponents of the thesis that only the largest investment banks will make money in a rapidly consolidating industry.

"We are still playing catch-up with the leaders among US bulge bracket firms," he says. "We are on a treadmill here. What we can't do is to stay in one place."

Nicholas Denton

Gary Parr/Morgan Stanley

Specialist *par excellence*


Gary Parr: career over the years closely tracked that of Joseph Perella

The industry specialist *par excellence*. Gary Parr has been advising insurance companies for the past 12 years.

The Morgan Stanley banker's addiction to insurance began early: his first job was at Cigna, the Philadelphia-based insurer, working on strategic investments by the company in other insurers. Since then, through positions with First Boston and Wasserstein Perella, he has won a reputation as the leading adviser on the consolidation and restructuring under way in the US insurance industry.

Mr Parr's career has closely tracked that of Joseph Perella. After advising Farmers on its unsuccessful defence against BAT, he left First Boston in 1989 to join Wasserstein Perella, the investment bank set up by his former bosses Mr Perella and Bruce Wasserstein.

Then, in 1994, he moved to Morgan Stanley, again following a move by Mr Perella. Of his defection to Morgan Stanley, he says he was drawn by the bank's high-quality reputation and by the prospect of working at a bigger institution.

"Investment banks are going to be providing a broader range of services," says Mr Parr, and will have to be bigger to compete. Though advisory work will remain the core of his insurance industry business, it will also include working on restructurings, derivatives and asset and liability management, as well as handling asset securitisations, he says.

Mr Parr, 39, tries to counter a perception that Wall Street's new breed of little-known specialists is what he terms "dullards toiling away in the mines": rather, "the takeover business relies as much as ever on creative thinking".

According to Mr Parr, the perception that Wall Street is now run by technicians is due largely to a change in style. "There was more bravado in the 1980s," he says. "The macho posturing seemed to be effective" at the time.

While he admits friends ask whether he is too much of a specialist to become president of a bank, he adds: "I'm perfectly happy doing what I'm doing."

Richard Waters

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday May 22 1996

INSIDE

Lufthansa seeks to save DM1bn

Lufthansa, the German national airline, plans to cut operating costs by more than DM1bn ($651.6m) in the next five years as part of a renewed savings and productivity drive to achieve a sharp rise in profitability. Page 16

CIP in investment company takeover
Banque Nationale de Paris announced a takeover of Compagnie d'Investissements de Paris, a financial investment company, following growing pressure from minority investors. The takeover was announced after shares in CIP had been suspended on the Paris bourse. Page 16

CompuServe plumps for internet standards
CompuServe, the large computer online information service, has announced plans to phase out its proprietary software in favour of Internet standards. Page 18

Honda surges in strong home market
Honda, the Japanese vehicle maker, reported a 22 per cent increase in consolidated pre-tax profits, reflecting the company's strong performance in the Japanese market, cost-cutting measures and a better currency environment. Honda's profits increased to Y115.1bn ($1.07bn) in the year to March 1996, from Y94.3bn previously. Page 20

Japan's general traders see profits soar
Japan's leading general traders, diversified bellwethers of the industrial economy, reported their fastest annual profits growth for six years, helped by financial gains and expansion of developing economies in south-east Asia. Page 20

Allied Domecq sells Continental
Allied Domecq, the UK spirits and retailing group, said it had almost completed its withdrawal from food manufacturing after agreeing to sell its Continental Bakeries unit to Hillsdown Holdings for 248m ($74.5m). The group has raised £600m from selling eight food businesses in the last 20 months. It remains under pressure to improve performance, after a drop in underlying profits from spirits. Page 21

Acorn surfs into network computers
Acorn Computer, the UK technology group which pioneered educational computing in Britain with the BBC Micro, plans to become one of the first companies to ship a network computer – a new low-cost device designed to help users surf the Internet. Page 21

RJB to buy CIM stake for A$136m
RJB Mining, the UK coal mining group, has agreed to spend A$136m (US$108.7m) acquiring up to 43 per cent of CIM Resources, the Australian company which owns 70 per cent of the Stratford coal project in New South Wales. Page 22

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				**Rises**			
Bilfinger	596	+	11	Altran Tech	1514	+	77
Gerresheimer	321	+	11	Rexel Nouv	1260	+	67
Radici	197	+	6	Sidel	1272	+	92
VEW	465	+	16	**Falls**			
Falls				Caout. Padang	952	-	38
Hamburg Elec	420	-	5	Gantois	1333	-	122
Linotype	114	-	6	Onet	1024	-	36
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Excel Comm	44¾	+	5	Banyu Pharm	1420	+	50
Tredegar Inds	31⅛	+	3½	Hitachi Koki	1159	+	50
Wyndham Hotel	21⅝	+	5⅜	Toei	799	+	16
Falls				**Falls**			
Harland J	27⅛	-	2	Kyodo Shiryo	527	-	23
Harnischfeger	35¼	-	2¼	Omron	2180	-	70
Orchard Supply	30⅝	-	2⅝	Shionogi	945	-	25
LONDON (Pence)				**HONG KONG (HK$)**			
Rises				**Rises**			
Brit Biotech	3315	+	265	Great Eagle	22.75	+	0.75
Compel Ele Sol	98	+	13	HK & S Hotels	13.35	+	0.55
Marks & Spen	462	+	29½	Wing Hang Bk	30.40	+	1.00
Quality Soft	305	+	20	**Falls**			
Falls				Chow Sang Sang	2.80	-	0.15
Bolgin A	17	-	6	Dah Hwa Int	8.00	-	0.25
Hardcastle	50	-	18	Tsingtao Brew	2.55	-	0.10
TORONTO (C$)				**BANGKOK (Baht)**			
Rises				**Rises**			
Cognos	35.50	+	3.00	Intl Eng	117.00	+	10.00
Reed Stenhouse	30.00	+	2.50	Regional Cont	312.00	+	28.00
Wst Star Truck	38.00	+	2.25	S K Garment	33.50	+	3.00
Falls				**Falls**			
Amtapa Res	20.60	-	1.80	Imperial Hotel	22.50	-	2.50
Biochem Pharma	64.00	-	3.50	Thai Fin Tst	54.00	-	5.50
Nevsun Res	10.70	-	0.85	Tuntex	31.25	-	3.25

New York & Toronto prices at 12.30

RWE in attack on state rival

By Judy Dempsey in Essen

Mr Dietmar Kuhnt, chairman of RWE, Germany's largest energy group, yesterday accused Deutsche Telekom, the state telecommunications network, of failing to create conditions for fair competition once the sector is liberalised in 1998.

Speaking at the presentation of RWE's nine-month results, Mr Kuhnt said the draft legislation, due to be passed in July, failed to set out specific terms for giving private companies access to Deutsche Telekom's networks.

He said Deutsche Telekom had done nothing about allowing subscribers to keep their own phone numbers if they switched from Deutsche Telekom to a private sector provider.

"Unless there is a smooth connection of their own networks with the Deutsche Telekom infrastructure, private sector companies will be unable to offer their customers a telephone service. There will be no real alternative to the existing monopoly," he said. He warned that under the draft legislation, Deutsche Telekom could have a "comparatively" free hand in setting terms for inter-connection, and be able "to determine 40 per cent to 60 per cent of the private operators' total costs".

Full liberalisation of the sector will take place on January 1 1998. In November, the German government will sell 500m Deutsche Telekom shares in a partial privatisation which will leave the state with an 83 per cent stake.

The latest criticism of Germany's telecoms plans reflects growing frustration among the country's private sector operators. They are trying to establish a foothold in the market ahead of liberalisation and before they know the terms under which they will have access to Deutsche Telekom's network. Mr Kuhnt said it made no sense for the private sector to set up a parallel infrastructure for all 5,200 telephone districts in Germany.

The company's criticism comes as it plans to take on Deutsche Telekom via a proposed joint venture with Viag, the large German industrial conglomerate, and British Telecom. The consortium plans to invest DM8bn ($5.2bn) up to 2005. Mr Kuhnt said he expected it to break even after five years.

RWE's group net profits from July 1995 to March rose from DM777m to DM822m, 5.8 per cent up on the previous year. Group sales rose 4.1 per cent from DM47.1bn to DM49.1bn. Mr Kuhnt said he expected RWE's full-year net profits to reach DM1.2bn against DM1.08bn last year.

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Sonat lifts bid for Norway's Transocean

By Hugh Carnegy in Stockholm

A battle between two Texan oil drillers to take over Norway's Transocean Drilling appeared to swing in favour of Sonat Offshore Drilling yesterday when it increased its bid to US$1.5bn and won the backing of the Oslo-based target's biggest shareholder.

Transocean, one of the world's largest offshore drilling companies, had backed Sonat's earlier bid against a higher offer from the Houston-based company's local rival, Reading & Bates, and said it would now intensify its efforts to finalise a merger agreement with Sonat.

In a development which could decide the issue, Transocean also announced that Tiger Management, the investment company which owns 17.2 per cent of the Norwegian company, had agreed to accept the revised Sonat offer.

Tiger had previously urged Transocean to reassess its acceptance of Sonat's original terms because it said the Reading & Bates bid offered shareholders better value.

Sonat's new bid was based on an offer of 0.53 Sonat shares for each share in up to 80 per cent of Transocean, and US$27.25 per share cash for the remaining 20 per cent. This compared with its first offer of 0.412 Sonat shares plus US$5.35 in cash for each Transocean share. The bid increased the value of the offer from US$27.08 per share to US$37.71.

The new bid still fell below Reading & Bates's last offer valued at US$1.56bn, and barely matched Reading & Bates's first bid of US$1.51bn. Its bids were based on all-share offers, which Reading & Bates argued offered ample liquidity and protected the new combined company from starting life over-leveraged. But Transocean clearly favoured a cash element and pointed out that Reading & Bates's offer was conditional on 90 per cent acceptance. Sonat said its bid was conditional on at least 50 per cent acceptance. Transocean argued from the start that a merger with Sonat was preferable, saying combining the two companies offered better future earnings, financial strength and share price strength.

The battle for Transocean is the latest in a long line of rationalisation moves in the offshore drilling industry. Transocean, built up from humble beginnings over the past decade, specialises in exploration and pre-production development drilling.

Overseas strength lifts TDK by 70%

By Gerard Baker in Tokyo

Strong growth in its principal overseas markets lifted pre-tax profits at TDK, the world's largest maker of magnetic tapes, almost 70 per cent in the year to March 31, the Japanese company announced yesterday.

Rapid expansion in Asian economies outside Japan helped TDK produce its best consolidated results for five years, as a shift of production away from Japan brought lower costs.

Group turnover was up 11.6 per cent at Y541.4bn ($5.15bn) as growth in demand for computers, home electronics and telecommunications products boosted sales of TDK's components.

Operating profit rose 41.1 per cent to Y54.1bn, and recurring profit – before extraordinary items and tax – was up 68.8 per cent to Y51.9bn.

Sales of magnetic products were higher by 10.5 per cent at Y128.9bn, ceramic and assembled products sales rose 7.5 per cent to Y145.5bn, while sales of recording devices surged 40 per cent to Y82.9bn.

However, recording media sales fell 1.1 per cent to Y131.8bn as a fall in sales of audio tapes was mostly offset by a recovery in videotape prices.

Overall, overseas sales were 14.7 per cent higher at a record Y315.9bn, 58.4 per cent of total turnover. Net profit rose 68.8 per cent to Y27.7bn.

Parent company recurring profit was up 29 per cent to Y31.6bn, on turnover 7 per cent higher at Y375.6bn. For the current financial year, TDK expects parent company turnover of Y386bn and recurring profit of Y35bn.

Brendan Corr

Sir Richard Greenbury, Marks and Spencer chairman, yesterday: "Consumer is coming out of the trenches."

Brooks Brothers boost for M&S

By Christopher Brown-Humes in London

Marks and Spencer, the stores group, yesterday provided cheer for the UK retail sector and its own investors as it returned a 7.2 per cent rise in pre-tax profits to just under £1bn ($1.53bn) for the year to March 31.

"There is every sign that the consumer is coming out of the trenches. It's not a boom but it's looking a lot better," Sir Richard Greenbury, chairman, said yesterday. The current year had begun well, he added.

Sir Richard's comments – more positive than those from other retailers recently – contributed to a near 7 per cent jump in the M&S share price to 462p, reversing a 12 per cent underperformance over the past year.

Group pre-tax profits from continuing operations rose 7.2 per cent last year to £993.7m, a better-than-expected result.

Analysts said the big surprise was a sharp second half turnround at the long troubled US clothing store chain Brooks Brothers. It rebounded to a full-year profit of £10.7m from a £2.5m first-half loss as the benefits of new management and store changes took hold.

M&S boasted that Brooks' sales grew more than 20 per cent in the last four months – faster than those of any other US clothing retailer.

Elsewhere, evidence of stronger consumer spending was shown by the 16.4 per cent rise in home furnishing sales in the last quarter of the year.

Analysts were also relieved by Sir Richard's robust dismissal of trade press reports that M&S's women's wear ranges had been seriously underperforming. He acknowledged sales of blouses and skirts had been weaker, but said the group had compensated with higher sales of dresses, trousers, jeans, and suits.

Some analysts nevertheless found the 3.9 per cent increase in M&S's clothing sales disappointing, as this included the impact of new space. The group blamed last autumn's unseasonably warm weather, which caused clothing sales to fall 2.1 per cent between August and October.

Sir Richard said he was "very pleased" with the group's start to the current year, although he declined to provide sales figures.

But Mr John Richards, stores analyst at NatWest Markets, was cautious about the group's claims over consumer spending. "Sir Richard has come across as being bullish, but arguably M&S has less to show for it than others who have been more cautious."

He said the fact that M&S had only maintained its market share last year "was an admission of defeat" for a such a blue-chip retailer.

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Barry Riley

Inflation-proof bonds lurk in the shadows

This year's sharp rebound in the yield on long-term US Treasury bonds to the 6½-7 per cent region has raised the real yield to some 4 per cent and appears to have been a factor in the Treasury's proposal to introduce, after a short period of consultation, bonds linked to an index of inflation. They could cut the cost of borrowing.

Potentially the inflation-indexed Treasuries will establish a new global benchmark for real interest rates. Securities market strategists will have the basis for evaluating two new fundamental relationships, between the index-linked and conventional bond yields, through assumptions about future inflation, and also between index-linked and equities, involving projections of future dividend and/or earnings growth.

This opportunity may not arise very soon, however. To begin with, much depends on how the bonds are structured, in particular on whether both coupon (if there is one) and principal will be inflation-proofed, as with the UK's index-linkers.

In theory, a global capital market will impose a very similar real yield in all countries. But there may also be tax complications, and initially the availability of the US bonds may be restricted.

Such factors, including differences in market liquidity, have produced quite wide international discrepancies for index-linked bonds in practice, with a real yield of around 5 per cent in Canada compared with 3.8 per cent at present in the UK.

In the UK the real yield was pitched at 2 per cent in the first issue, but the level crept up over the years, hitting a high point of 5 per cent in the latter stages of the UK's ERM participation. A range of 3.5 to 4 per cent can be regarded as normal.

At present the implied long-run inflation expectation in the UK, on the basis of a long gilt yield of 8.2 per cent, is some 4.4 per cent but that includes a risk premium of unknown size to reflect the greater uncertainty of investing in conventional gilts.

Potentially the inflation-indexed Treasuries will establish a new global benchmark for real interest rates

The real yield on linkers is lower than it would be in a period of greater confidence about the future inflation trend. In the US, which has experienced lower and more stable inflation than the UK in recent years, that premium ought to be smaller. If investors are less willing to pay a premium for inflation-proofing the real yield will be correspondingly higher.

Starting from a US long fixed income bond yield of 7 per cent, therefore, it may be that a real yield of 3.5 per cent would be a reasonable expectation once equilibrium is reached (perhaps after several years, having started lower). If it is any higher than this there must be a threat to the UK linkers.

Now for equities. In the UK it has become the pattern that the index-linked yield has maintained a premium – averaging perhaps ½ per cent – over the All-Share Index dividend yield. Equities have offered more income growth (about 1 per cent real in the very long run, against the zero real growth from linkers) but have also involved more risk.

At times unusual optimism about equities has turned the equity yield premium into a short-lived discount – in 1987, in mid-1994 and during the past month or so. It is possible that the recent strength of Wall Street has tipped UK equities out of their normal alignment with index-linked gilts. For the time being, in any case, dividends are surging at a real rate of 7 per cent.

So what would a real yield on US Treasuries of 3.5 per cent do to US equities, when the dividend yield is a bare 1.9 per cent? Fortunately, we do not have to believe in the shock horror answer that equities would have to make a rapid adjustment by halving in price in order to yield about 4 per cent. All the same, inflation-linked bonds will provide a big challenge at some future period when investors are less confident about the prospects for corporate earnings growth. In an equity bull market linkers, as dull, safety-first securities, are sidelined, but when corporate sector conditions become more testing they will set a tough benchmark.

SCA adds to pulp and paper sector gloom

By Greg McIvor in Stockholm

SCA, Sweden's largest pulp and paper group by turnover, yesterday highlighted the abrupt downturn in the country's forestry industry by reporting a fall in interim pre-tax profits from SKr1.5bn to SKr1bn ($146.2m).

The figures, broadly in line with expectations, completed a gloomy first quarter for Sweden's leading four forestry groups. Combined profits at SCA, Stora, AssiDomän and MoDo dropped 32 per cent amid a rapid decline in prices of pulp and key paper grades.

Underlining the trend, Södra, Europe's largest producer of market pulp, said yesterday first-third pre-tax profits of SKr574m of 1995 had slumped to a SKr82m loss. The Swedish company described 1996 as a "lost year" and warned of possible full-year losses.

SCA said the outlook remained "very uncertain", primarily because of the state of the European economy, which accounts for 95 per cent of its sales. It said fine paper orders were recovering, but pulp inventories remained extremely high and would need to fall further before prices could rise.

However, it stressed inventory rundown appeared to be over in most product areas and raw material prices were rising again. This would ease the pressure on end products – an effect likely to be bolstered by an improving economic climate in the US and Japan.

Net sales slipped from SKr16.75bn to SKr14.96bn and net earnings per share from SKr4.86 to SKr3.07. SCA's most-traded B-shares slimmed SKr1 to SKr136.5.

The company blamed the weaker performance on sharp price declines for pulp, fine papers and liner products, as well as the negative effects of the stronger Swedish krona.

Excluding lightweight coated papers, demand for wood-containing papers held up well and prices were relatively stable, it said. However, consumer-oriented products such as corrugated board, fluff and tissue suffered from the general European economic slowdown.

Nevertheless, there was encouragement from hygiene products – SCA's biggest business area – where operating profits rose from SKr341m to SKr515m. Incontinence products volumes rose 13 per cent, although diaper operations continued to experience heavy competition.

Operating profits in packaging narrowed from SKr661m to SKr413m, due chiefly to a sharp decline in liner sales amid falling raw materials prices and depressed demand.

SCA said its strategy was to focus increasingly on value-added products within the hygiene and packaging divisions in order to reduce the group's "cyclability". It also intends to become a net purchaser of liner.

Graphic paper operating profits slid from SKr489m to SKr226m, reflecting a decline in fine papers, paper merchanting and market pulp.

Lufthansa seeks DM1bn savings over five years

By Andrew Fisher in Frankfurt

Lufthansa, the German national airline, plans to cut operating costs more than DM1bn ($651.6m) in the next five years as part of a renewed savings and productivity drive to achieve a sharp rise in profitability, Mr Jürgen Weber, the chairman, said yesterday.

"Some of the measures that will have to be taken will be painful," he said. "We cannot afford to sit back and relax because our main rivals in Europe have also declared war on costs." British Airways said on Monday it would have to find £1bn ($1.5bn) in the next three years to maintain competitiveness through cost cuts, more efficient use of assets and improved revenues.

Mr Weber declined to give details of Lufthansa's efficiency plans, but said unit costs should be reduced further, by some 25 per cent by 2001. "All costs, bar none, will be reviewed. All possibilities of boosting earnings will be re-examined." Staff would also be offered a profit-sharing plan as part of this year's wage talks, although he made clear there was little scope for pay rises.

He said competition in the airline industry had become fiercer in the wake of growing liberalisation and globalisation. New alliances had also intensified competition. However, the granting this week of US anti-trust immunity for Lufthansa's co-operation with United Airlines would improve profits and clear the way for closer operating links.

Since Mr Weber became chairman in 1991, Lufthansa has undergone extensive restructuring. Yesterday, he said Lufthansa would meet forecast growth in air traffic of between 5 and 7 per cent a year without increasing staff, or with only a marginal rise.

Elaborating on the 1995 results – the group has already announced a 3 per cent rise in pre-tax profits to DM756m – Mr Klaus Schlede, finance director, said net debt was reduced by DM1.6bn to DM2bn. Turnover was 6 per cent higher at DM19.9bn. The dividend is being increased from DM4 to DM5 a share.

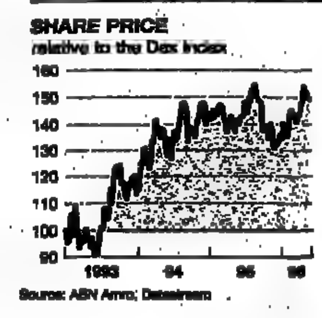
He said the strong D-Mark burdened group results by DM458m. A sector breakdown showed that the Lufthansa passenger airline contributed DM478m to the pre-tax figure, and Condor (the charter operation) DM144m. The rest came from catering, technical, freight and other services.

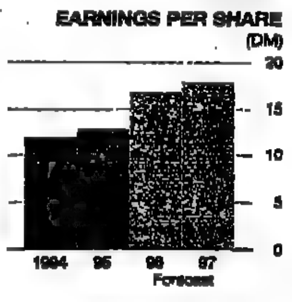
In the first quarter of 1996, sales rose 6 per cent to DM4.6bn and the seasonal operating loss was reduced by 11 per cent to DM49m. But Mr Schlede said passenger and cargo growth was likely to be only moderate this year against the weak economic background.

PROFILE:
Lufthansa
Market value: $6.7bn — Main listing: Frankfurt

Historic P/E	18.5
Dividend yield (1995)	2.8%
Earnings per share (1995)	DM 13
Current share price	DM 247.7

Jürgen Weber
Chairman





Source: ABN Amro; Datastream

BNP bows to pressure on CIP with takeover

By Andrew Jack in Paris

Banque Nationale de Paris yesterday announced a takeover of Compagnie d'Investissements de Paris, a financial investment company in which it has control, following growing pressure from minority investors.

The takeover – in the form of an offer to exchange one BNP share for every CIP share – was announced at BNP's annual general meeting yesterday, after shares in CIP were suspended on the Paris bourse.

The initiative appears to mark a victory for minority investors in French companies, and builds on criticisms launched last year by a US investment fund which attacked CIP's management and called for improved shareholder value.

The offer comes one week ahead of the annual general meeting of CIP, at which SBC Warburg, the investment bank which holds 2.5 per cent of the company's shares, had filed a resolution calling on the board to reduce the discount of its shares to the net asset value.

It called on CIP to consider solutions including buying back from the market up to 10 per cent of its shares, paying an exceptional dividend, and converting the company into a Sicav investment company, which would have allowed it to liquidate its investment.

BNP said yesterday the offer would allow all CIP's investors to "better realise their investment and improve liquidity".

SBC Warburg, which has built up its stake over the past few months, is believed to have been notified recently that the CIP board did not approve of its resolutions.

Last year Elliott Associates, the US fund and another investor also attacked CIP's management in a series of questions at the annual general meeting.

Incentive revamp puts focus on power group

By Hugh Carnegy in Stockholm

Incentive, the Wallenberg empire industrial company which has undergone radical remodelling this year, said yesterday it had begun the process of finding a buyer for its highly profitable power company, as the next step in the restructuring.

Mr Mikael Lilius, chief executive, said he expected the intense jostling for position among Nordic power companies prompted by deregulation would guarantee Incentive a premium price for Skandinaviska Elverk, which last year made operating profits of SKr609m ($90.3m) on sales of SKr1.8bn.

"The asset we have is a unique opportunity [for potential buyers]," Mr Lilius said. "It is the only fully integrated operator in the sector [in Sweden] which is 100 per cent held by a single owner."

However, Incentive shares fell sharply yesterday after the group reported a weak first quarter. Profits after financial items rose from SKr504m in the first three months last year to SKr826m, and profits per share were up from SKr5.28 to SKr778. But this year's profit was inflated by SKr570m in one-off gains from asset sales.

Group sales fell from SKr6bn to to SKr5.3bn, although Incentive said turnover was up 11 per cent, adjusted for divestments and negative currency effects. Including contributions from its shareholdings in ABB, the Swiss-Swedish engineering giant, and Electrolux, group profits rose from SKr852m to SKr1.2bn. Incentive's most-traded B-share fell SKr8 on the day to close at SKr374.

Incentive's main subsidiary is Gambro, the medical technology group it acquired earlier this year. Gambro, a supplier of renal care equipment and services, said operating profits fell from SKr362m to SKr327m in the quarter, chiefly because of the effects of currency changes and goodwill write-offs. Sales rose from SKr2.5bn to SKr2.6bn.

NEWS DIGEST

Holzmann reveals further losses

Philipp Holzmann, Germany's biggest construction group which reported a surprise 1995 net loss of DM443m ($288.6m), said yesterday it had made further unspecified losses during the first quarter. It also said it would sell businesses worth up to DM350m in sales to improve profitability.

Mr Lothar Freitag, the acting finance director following the departure last week of Mr Michael Westphal, said the group was also talking to a number of German companies specialising in power stations and "to US groups active in the German market" about a solution for Steinmüller, the Holzmann subsidiary which makes power stations. Holzmann said it would not sell Steinmüller, which last year reported pre-tax profits of DM61m and a record order book.

However, the German market for power stations will slow dramatically after 1998 when a number of investments in eastern Germany have been finished. Holzmann said an agreement would have to be reached with companies like Deutsche Babcock and GEC-Alsthom, the Anglo-French group, to deal with excess capacity. Sales fell 16 per cent in the first quarter to DM2.4bn because of an unusually bitter winter in Germany. New orders were 4 per cent higher at DM3.4bn. Mr Lothar Mayer, chief executive, said he expected sales for 1996 to rise slightly to DM14.5bn from 1995 turnover of DM14.1bn.

He declined to forecast this year's profits.

Michael Lindemann, Frankfurt

Thyssen profits decline 15%

Thyssen, the German steel, engineering and telecoms conglomerate, yesterday said pre-tax profits in the six months to March 31 had fallen 15 per cent to DM349m following an expected slowdown in a number of its cyclical businesses. It made profits in all corporate sectors and expected profits to develop "moderately" this year. Sales would increase "satisfactorily" throughout the rest of the year amid signs Thyssen was benefitting from the rise in the value of the dollar and other European currencies against the D-Mark.

But the company repeated its earlier warnings about the fragile state of the German economy. "Without further signs of growth in the economy the growth in profits will be significantly slower than last year." Sales fell 4 per cent to DM18.4bn while orders fell 8 per cent to DM18bn.

Thyssen Industrie, the engineering unit which is the smallest of the group's three divisions, saw sales fall 14 per cent, in part because of a depressed German shipbuilding market and because of a bitter winter which brought the construction industry, one of Thyssen's main clients, to a virtual standstill. The group also said it had increased its stake in E-Plus, Germany's third mobile phone network from 28.4 per cent to 30.1 per cent. *Michael Lindemann*

Expansion costs hit Telia

Profits at Telia, Sweden's state-owned telecoms operator, tumbled from SKr1bn in the first quarter last year to SKr686m this year as the group suffered from intense competition in the deregulated Swedish market and the costs of an international expansion drive.

However, operating revenues rose from SKr9.5bn to SKr10.2bn as income from fixed networks rose and mobile telephone subscriptions continued to rise sharply, especially among private subscribers. Telia said it expected full year profits to be ahead of 1995 profits of SKr3.2bn.

Hugh Carnegy, Stockholm

CLF confirms Belgian link-up

Crédit Local de France, the French bank specialising in public sector lending, said yesterday it expected a planned link-up with a leading Belgian competitor to be in place by the end of the year. Mr Pierre Richard, chairman, confirmed reports in March that Crédit Local de France was considering cross-participations in Crédit Communal de Belgique, Belgium's second largest bank, which would lead to an exchange of up to 50 per cent of each other's shares.

The move would create the largest European financial institution specialising in loans to public institutions, with combined total assets of FFr1,000bn. *Andrew Jack, Paris*

Gucci doubles sales in quarter

Gucci, the Italian manufacturer of luxury goods and clothes, more than doubled sales in the first quarter, compared with same period last year. The group, shares in which are listed in New York, increased turnover from $91m to $193m. Sales through the company's 65 directly-managed shops doubled to $131m, while wholesale turnover – through franchised shops, duty-free shops and other specialised outlets – rose from $15.8m to $50.8m. *Andrew Hill, Milan*

Montedison investor denies pact

Shares in Montedison, the Italian agribusiness, chemicals and energy group, slipped back slightly yesterday after a shareholder who had called for the break-up of the company said it had no voting agreement with other shareholders. The Gibraltar-registered fund, Codelouf & Co, run by Mr Luca Padulli, the Italian financier, had written to Montedison management suggesting the company should be split up for the benefit of existing shareholders.

The leak of the letter prompted heavy trade in Montedison's shares, which have since risen more than 5 per cent. Codelouf, which was said to have rallied as much as 19 per cent of Montedison's shares in its support, said it had neither verbal nor written agreements with other shareholders and implied it would vote its 4.8 per cent stake in Montedison in agreement with Ferruzzi Finanziaria (Ferfin), the holding company which controls Montedison with a 32 per cent shareholding and shares the same management. *Andrew Hill*

■ The public offer of shares in Mediolanum, the Italian life assurance and financial services company, closed yesterday with the offer more than 15 times over-subscribed.

Andrew Hill

SBC confirms banking split

Swiss Bank Corporation yesterday confirmed it would transfer its private banking and fund management arm, SBC Private Banking, into self-standing operating divisions from the beginning of next year, splitting it from the group's Swiss retail banking division.

George Graham, Banking Correspondent

Investors cash in on restructuring trend

By Antonia Sharpe

The German stock market is the most fertile hunting ground for investors looking to make money from corporate restructurings. And this trend is gathering momentum in the rest of continental Europe and Scandinavia, according to a report by J. P. Morgan, the US investment bank.

"Investors are fearful of missing the restructuring story," Mr Gary Dugan, the report's author, said yesterday.

The 50-page report identifies four drivers of corporate restructuring in Europe: the slowdown in economic growth; accelerating deregulation in Europe; further consolidation of global sectors; and the increasing pressure on companies to focus on their core activities and to enhance shareholder value.

As a result, continental European companies will be compelled to carry out Anglo-Saxon measures such as radical cost-cutting, demergers and share buybacks in the future. In sector terms, J. P. Morgan highlighted banks, and pharmaceutical and chemical companies as the most likely to undertake restructurings which will enhance shareholder value.

Mr Dugan said shareholders in the few European companies which have started to cut costs and to restructure their business had already reaped the benefits. For example, Hoechst, the German chemicals company which has completed the first stage of its restructuring – enhancing earnings and cashflow – has seen its share price outperform the German stock market by 45 per cent over the past year. Hoechst now intends to demerge its healthcare, chemicals and agro-chemicals products business.

J. P. Morgan also pointed to the 20 per cent rise in the share price of DSM, the Dutch chemicals company, following its decision to buy back its shares in February. It said the buyback should enhance DSM's 1996 earnings by around 18 per cent.

Mr Dugan said the lack of investment opportunities and the fear of making an unwise acquisition meant more European companies were considering share buybacks as a way to return excess cash to shareholders.

He noted, for example, that the French corporate sector was so flush with cash that for the past two years it had been a net lender to the country's financial system, the first time this has happened since the second world war.

However, French companies are unlikely to offer share buybacks or substantial dividend increases because of the high levels of tax which shareholders incur. Nor does the government appear inclined to change the tax regime for buybacks. But the German, Swedish and Swiss authorities are understood to be considering changing the regulation and taxation of share buybacks.

OBITUARY: EDOUARD BUFFARD

Founding father of ubiquitous pen maker

Edouard Buffard, one of the two founders of Bic, the French-based disposable pens, lighters and razors group, has died, the company has announced.

His death at 88 last Thursday follows almost exactly two years after that of the fellow founder Baron Marcel Bich at age 74, who gave his name to the group and led its rapid post-war development from a domestic business to a multinational concern and one of the best-known French brands in the world.

It also comes after the death earlier this year of Claude Bich, aged 57, one of the Baron's sons, who was a director and vice-president of the group. He is best remembered by Bic for his contribution to the development of technology for writing instruments and shavers.

The secretive Marcel Bich launched PPA, a pen and leaded pencil company, with Edouard Buffard in 1945 in Clichy, just north of Paris. Five years later, they acquired the patent for the ball-point pen from the Hungarian investor Lazlo Biro.

In 1953, they created Bic to commercialise the product.

Baron Bich was chairman of the group, and Edouard Buffard the managing director. Both men continued to be involved in all aspects of the business's operations long after normal retirement age. Buffard remained a board director and a managing director until his death.

He was also one of the most significant investors in the group, with his family last year holding 9 per cent of the shares and 13 per cent of the voting rights.

Although Bic was quoted in 1972, the Baron's family still holds the largest stake with 36 per cent of the shares and 42 per cent of the votes.

Bic spoke of Buffard's death with "sadness", highlighting yesterday his contribution to the management of the group's ball-point business, its international expansion and its diversification in the 1970s into lighters and razors.

Bic is now run by Mr Bruno Bich, the third son of the founder and one of his 11 children, in a succession which was arranged in 1993, ahead of the death of the baron. Several other members of the family are also involved in managing the group.

Andrew Jack

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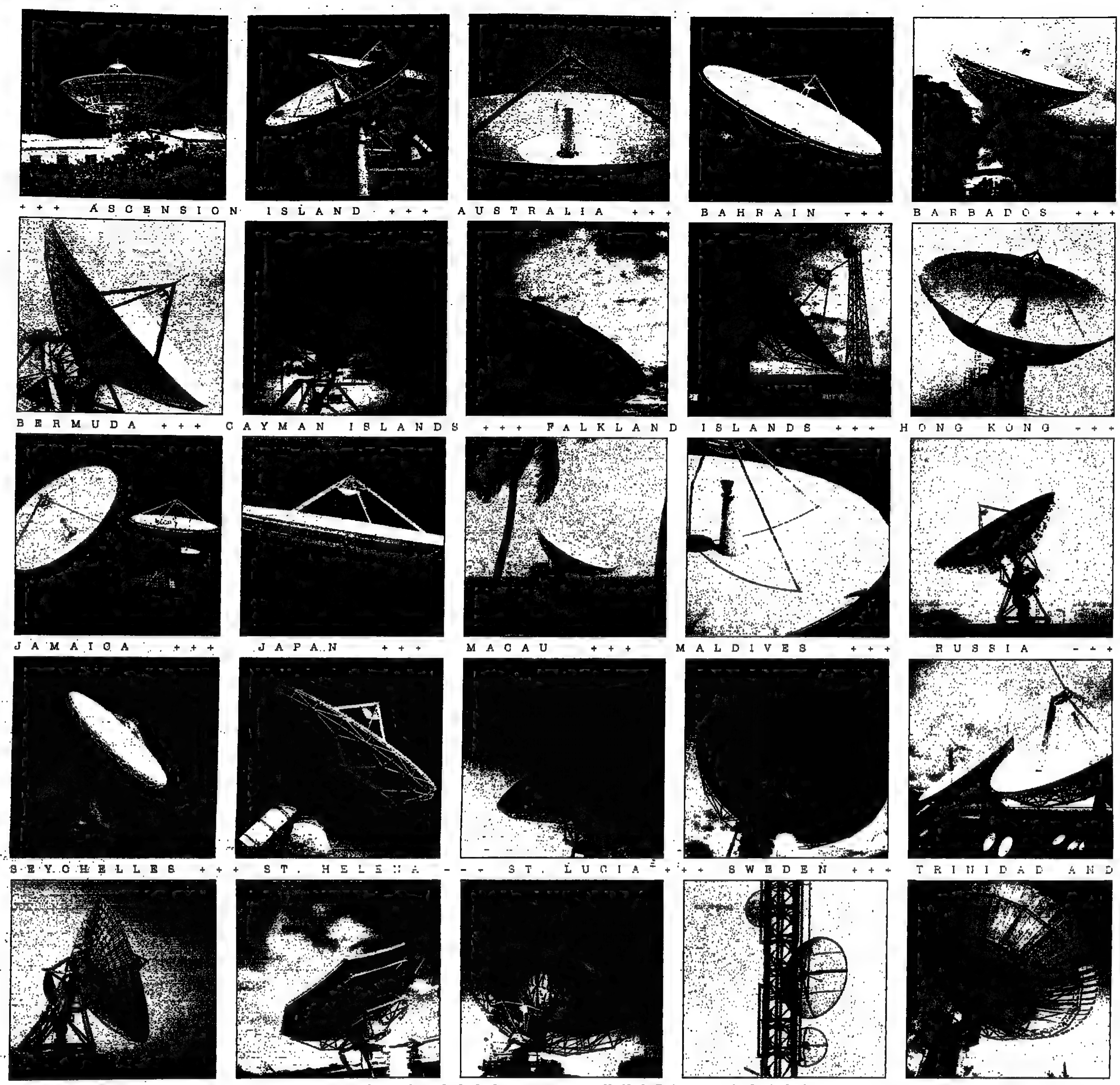

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With businesses in over 50 countries, and our own network of high-quality cable and radio links, we're the third-largest carrier of international traffic in the world.

We're involved in mobile businesses in 30 countries; from the UK, France and Germany through to Singapore, Hong Kong and the Caribbean.

We helped launch Asia's first privately-financed communications satellite, which has a "footprint" covering almost half the world's population; we're laying fibre-optic cables linking the UK with Japan; and we're partnering VEBA of Germany to build new businesses in the EU.

If that sounds like a technical success story, it's no less a financial one.

Since Cable & Wireless was launched on the stock market in 1981, our growth in earnings per share and dividends has outstripped the UK average by over 200%*.

Above all, it's a success based on the unique Cable & Wireless mix of advanced technology and unparalleled experience of building trust, effective partnerships and long-term relationships with governments, businesses and customers alike.

And with telecommunications set to be one of the world's fastest-growing industries over the next decade, we face the future with some very appetising prospects indeed.

CABLE & WIRELESS

*Past performance cannot be relied upon as a guide to future performance.

CompuServe to refocus as Internet-based service

By Louise Kehoe in San Francisco

CompuServe, one of the leading computer online information services, yesterday announced plans to phase out its proprietary software in favour of Internet standards.

By the end of the year, CompuServe plans to relaunch itself as an Internet-based service that subscribers can access with a standard Web browser instead of the special-purpose programs currently required.

CompuServe's decision follows similar moves by Prodigy, the Microsoft Network and AT&T's Interchange Online Network, all of which began as proprietary services but then moved to Internet standards. However, CompuServe, with nearly 5m subscribers, is by far the largest online service to make such a shift.

This will leave America Online, the largest service with about 7m subscribers, as the only big online service still using proprietary software. Analysts predicted, however, that AOL may also eventually be forced to join the trend to Internet standards.

CompuServe's move reflects the rising popularity of the Internet among personal computer users, which is challenging the role of proprietary online services, industry analysts said. The shift to Internet standards may also help CompuServe to offset mounting competition from media companies that are building their own information offerings on the world wide web.

By shifting to Internet standards CompuServe will be able to devote more of its resources to creating value-added services instead of proprietary software, said Mr Bob Massey, CompuServe president and chief executive.

"This new initiative not only paves the way for new services in the future, but it will enhance our current services ... by enabling us to respond quickly to market needs with unique new products and content."

More than 80 per cent of CompuServe's efforts will now be devoted to building new content and services using Internet technology, he said.

CompuServe said it would acquire, customise and integrate technologies developed by business partners and third-parties to revamp its services.

● IBM yesterday launched a range of "affordable" lightweight notebook computers aimed at business travellers. The ThinkPad models, weighing only 4.1lb, feature large displays and an "ultra-thin" casing. Prices start at $2,700, bringing the IBM ThinkPad into the low end of the portable computer market.

"IBM has raised the bar in notebook design," said Mr Bill Ablondi of Giga Information Group, a market research firm. "Our research shows there is a substantial pent-up demand for slimline notebooks among experienced portable users."

US retailers begin to see some light amid the gloom

By Richard Tomkins in New York

Retailers have been having a hard time in the US lately, with weak demand and cut-throat competition putting a squeeze on profits: but there have been glimmers of hope in the first-quarter results reported over the past week or so.

Nearly all the big retailers have turned in improved performances. Admittedly, it would have been hard for many of them to do much worse than they had done a year earlier, but at least the figures suggested the sector might have turned the corner.

One bright spot has been the hint of a recovery in sales of clothing, with department stores and apparel retailers tending to do better than discount chains such as Wal-Mart Stores, which sell a high proportion of electrical and household goods.

Until recently, it had been the other way round. Clothing retailers – particularly those selling women's clothes – had been hit much harder by poor demand than retailers of so-called hard-line merchandise.

Part of the reason was said to have been that working women had less time to shop than they used to. And clothing sales seemed to have become much less fashion-driven than in the 1980s, when everyone wanted to keep up with the latest look.

Now, however, analysts are beginning to wonder if consumers have gone so long without buying new clothes that they are ready to renew their wardrobes. And with the economy buoyant, people seem to have enough money in their pockets to satisfy the pent-up demand.

One indicator of the rebound in clothing sales came from Gap, owner of the Gap, Banana Republic and Old Navy clothing store chains, which saw net profits leap by 63 per cent to $82m in the first quarter on the back of a 31 per cent increase in sales.

New store openings contributed to Gap's advance, but the company also reported a greater willingness among customers to pay full price instead of waiting for markdowns. In addition, Gap benefited from a shift away from basics such as jeans and khaki clothing towards higher-margin goods with bolder colours and more of a fashion content.

Among the department stores, Sears Roebuck has been doing particularly well on the clothing side: last month it reported a 22 per cent increase in net profits to $151m. Its example has been followed in the past few days by Federated Department Stores and May Department Stores, both of which reported sharply improved results.

Yet the message from department stores and other apparel retailers is still mixed. J.C. Penney's poor performance deteriorated still further amid tough price competition, and Dayton Hudson's sharply improved performance came more from its Target discount store division than from its traditional department stores.

Similarly, The Limited's profits advance came from its speciality retailing divisions such as Victoria's Secret, Bath & Body Works and Abercrombie & Fitch – not its women's clothing division, which the company said had continued to underperform.

On the non-clothing front, rapid expansion helped Home Depot, a stock market high-flier, turn in yet another stellar performance: net profits rose 24 per cent to $198m. But other large retailers continued to be afflicted by severe competition, caused primarily by the rapid expansion of the discount store sector over the past few years.

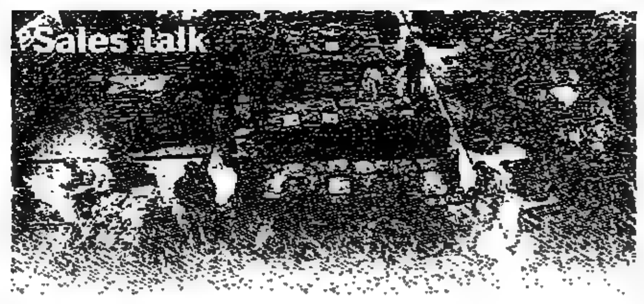
Wal-Mart Stores, until recently a high-flier like Home Depot, resumed its profits growth after last quarter's surprise downturn, but tough competition limited the advance to 3 per cent – a pale shadow of the profit increases the company used to deliver. By way of consolation, it said earnings growth should accelerate later in the year.

Kmart, the biggest casualty of the US discount store wars, remained mired in difficulties, reporting losses on continuing operations of $38m: but the figure represented an improvement over the previous year's losses of $109m, setting aside unusual items.

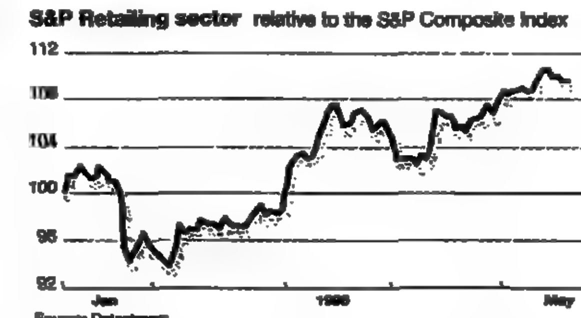
Mr Floyd Hall, Kmart chairman and chief executive, accompanied yesterday's publication of the figures with an upbeat presentation to shareholders at the company's annual meeting. He said the discount store sector was the fastest-growing part of the US retail market, and Kmart was taking actions to ensure it became "a fierce competitor" in the sector.

Woolworth is another ailing retailer that cut its losses in the first quarter: they fell from $80m a year earlier to $22m, largely as a result of cost cutting. The speciality retailing division made operating profits of $34m, while the general merchandise division incurred operating losses of $21m.

Still, Woolworth remains under pressure. The company faces calls from Greenway Partners, a New York based investment house, to spin off its profitable athletic footwear and clothing division to shareholders, leaving management to concentrate on turning the rest of the business around. The non-binding resolution will be put to the vote at Woolworth's annual meeting on June 13.



S&P Retailing sector relative to the S&P Composite Index



Source: Datastream

US retailers: first quarter results

	Revenue $bn 1996	Revenue $bn 1995	Change (%)	Net income (loss) $m 1996	Net income (loss) $m 1995	Change (%)
Wal-Mart Stores	22.8	20.4	+11	571	553	+3
Sears Roebuck	8.0	7.5	+7	151	124	+22
Kmart	7.6	7.4	+2	(38)	(109)	+65
Dayton Hudson	5.4	4.8	+13	41	11	+272
JC Penney	4.5	4.4	+2	142	156	-7
Home Depot	4.4	3.6	+22	195	158	+24
Federated Department Stores	3.3	3.0	+10	(38)	(57)	-33
May Department Stores	2.4	2.1	+14	96	87	+13
Woolworth	1.8	1.9	+1	(22)	(80)	-72
The Limited	1.8	1.6	+13	28	20	+39
Gap	1.1	0.8	+31	82	50	+63

Source: company reports NB discounted operations and unusual items excluded

Goldman to convert to limited liability

By Maggie Urry in New York

Goldman Sachs, the investment bank which is the last large partnership on Wall Street, is changing its capital structure to bring more stability to its finances and attempt to "encourage partners to lengthen their active careers at the firm", Goldman said. The firm has also decided to convert to a limited liability partnership at its financial year-end in November.

The changes follow the partners' decision in January to remain a private partnership rather than seek a listing or pursue another course to bolster the capital base.

In a memo to Goldman partners and staff yesterday, Mr Jon Corzine, senior partner and chairman, and Mr Hank Paulson, vice-chairman and chief operating officer, said the changes would "strengthen Goldman Sachs as a private partnership".

In an interview, Mr Corzine said "capital adequacy was never the issue, the question was one of capital stability". He said the changes were in tune with the partnership culture and would not affect the way the firm was managed.

The firm is to set up a long-term capital account for partners who would then keep their capital within the firm for a longer period after they retire or leave. At present, partners who leave must keep their capital in the firm for at least four years, although in practice many retain their stake longer.

Goldman has about $5bn of equity capital but this would be expected to grow as partners kept their money in the firm longer. There would also be provisions to give partners some additional liquidity.

The move to limited partnership status would mean that in the event of a catastrophic loss, partners' liability would be limited to the amount of capital they had in the firm. The memo said "partners' economic interests will continue to rise or fall together with the fortunes of our single overall firm".

Goldman's profits slumped in 1994, along with other investment banks, because of poor trading conditions and caused the partnership to look again at its capital base. Mr Corzine and Mr Paulson took control of the firm in the autumn that year.

Utilities sweeten merger terms to woo investors

By Richard Tomkins

Kansas City Power & Light and UtiliCorp, two US electricity companies proposing a $1.58bn merger, have sweetened the terms of the deal in a last-minute attempt to win over wavering shareholders.

On the eve of the annual meeting today at which Kansas City Power & Light's shareholders had been due to vote on the merger, the two sides have improved the offer to value Kansas City Power & Light at about $1.69bn.

However, the figure still falls slightly short of the terms suggested by a rival offer from Western Resources. In an unsolicited approach last month, Western Resources proposed an all-share transaction valuing Kansas City Power & Light at $28 a share, or $1.73bn.

Kansas City Power & Light said the shareholder vote on the revised offer would now be postponed until the summer.

Kansas City Power & Light and UtiliCorp are the latest in a wave of US utilities seeking to merge as the US electricity market moves towards deregulation.

Faced with the threat of competition, electricity companies have been trying to get their costs down by merging with neighbouring utilities. This has enabled them to reduce overheads and cut payrolls by sharing generation plant, administrative resources and other facilities.

Hostile bids have so far been unusual because mergers have to be approved by regulatory bodies. Even friendly mergers take a long time to clear, and electricity companies say a hostile move could become very difficult to complete.

Western Resources has not yet made a formal bid for Kansas City Power & Light. Last month, however, it put pressure on the company to open negotiations on a merger by publishing the contents of a letter to its target's chairman, in which the terms of its proposed deal were set out.

The pressure mounted last week when Institutional Shareholder Services, an influential US shareholder rights group that advises investors on proxy decisions, recommended Kansas City Power & Light's shareholders vote against the merger with UtiliCorp.

Under the terms of the original deal, Kansas City Power & Light and UtiliCorp would have merged into a new company. Kansas City Power & Light's shareholders would have received one share in the new company for each share already held, while UtiliCorp's shareholders would have received 1.096.

That balance has now been shifted in favour of Kansas City Power & Light's shareholders by altering the share allocation.

Market gambles on survival of ValuJet

By Richard Tomkins

Shares in ValuJet bounced back $1⅞ to $13⅛ in early trading yesterday – a rise of 17 per cent – as investors gambled that the airline would recover from the air crash that killed all 110 people aboard a ValuJet flight on May 11.

The share price rise came despite a company announcement that Mr Timothy Flynn, one of its founders and directors, had sold 1.5m ValuJet shares on Monday.

The company said Mr Flynn had sold the shares "to satisfy margin debt previously incurred", and added that he had never been active in the day-to-day management of the company.

The shares sold by Mr Flynn represent 2.7 per cent of ValuJet's equity. On Monday, the selling pressure appeared to have contributed to a fall of $1⅞ in ValuJet's share price to $11¼ – exactly the amount recovered in yesterday's early trading.

ValuJet's share price has been highly volatile since May 11. Each time it has fallen in response to fears that the fatal accident would prove ruinous for the airline, it has bounced back on hopes that the company would rebuild itself in time.

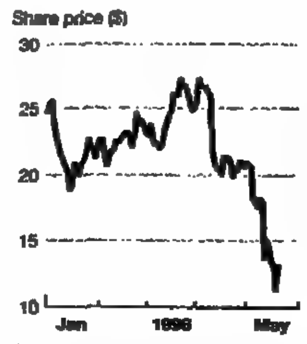
In the past few days speculation has mounted that the crash was caused by an explosion among oxygen canisters being transported in the aircraft's cargo hold. The canisters were said to have been certified empty by an independent maintenance contractor.

If the theory proves correct, it remains to be determined how much blame will attach to ValuJet. But in the near term, the company faces a severe deterioration in earnings because it has cancelled half its flights to carry out intensive safety checks.

ValuJet says it has enough financial resources to weather the crisis. At the end of the first quarter to March it had $120m of cash on hand, and at the end of the following month it completed a $150m debt offering.

ValuJet

Share price ($)



Source: FT Extel

NEWS DIGEST

Raytheon to buy WMX pulp unit

WMX Technologies, the Chicago-based waste processing and engineering conglomerate, has agreed to sell its pulp and paper division to Raytheon for $118m. The sale is the first in a series of expected asset disposals that WMX hopes will transform $1bn in non-core assets into cash.

The pulp and paper property, based in Birmingham, Alabama, is part of WMX's Rust International subsidiary. The Rust unit will retain its central environmental consulting businesses, although its process engineering group is included in the Raytheon sale.

Raytheon, which has said it hoped to expand into chemicals and metals processing, as well as paper, foods and consumer products, plans to add the WMX property to its Raytheon Engineers and Constructors group. The sale is subject to regulatory approval, and is expected to be completed within the next two months.

WMX Technologies, formerly known as Waste Management, is trimming its non-environmental businesses in an attempt to bolster profitability. *Laurie Morse, Chicago*

Hotels boom for Vancouver

Vancouver, Canada's gateway to Asia, has the country's hottest hotel development market. A record 26 new hotels are being proposed, representing almost 8,000 new rooms, according to property broker Royal LePage.

Vancouver's expanding airport, the Canada-US open skies agreement, growing cruise ship business and a planned central convention centre are all driving the hotel expansion wave. Two new hotels are under construction and work starts on five more later this year. *Robert Gibbens, Montreal*

ITT in riverboat casino venture

ITT, the US hotels and casinos group, has obtained an exclusive licence to develop and operate a riverboat casino on the Ohio river in Indiana. Caesar's World, ITT's casino group, expects to complete the 80,000 sq ft casino by the end of 1997. It estimates the casino will generate $250m-$350m in gross gaming revenues each year. The company also plans to build a resort on 232 acres to include a 500-room hotel, a shopping mall, and other entertainment facilities. *AP-DJ, New York*

AIG to lift dividend 17.6%

The board of American International Group, the US insurer, has voted to raise the quarterly dividend 17.6 per cent to 10 cents a share. Mr Maurice Greenberg, the group chief executive, said AIG expected to see strong growth in its Latin American life assurance business.

AIG already has a presence in Chile and recently launched operations in Argentina. *Reuter, New York*

Eastman Chemical upbeat

Mr Earnest W. Deavenport, chairman and chief executive of Eastman Chemical, said the company's volumes in April were 4 per cent ahead of 1995's levels, although pricing was flat compared with a year ago. The company's business was improving in the second quarter, he said. *Reuter, New York*

Spar Aerospace appointment

Spar Aerospace has named Mr Frederick D. Lawrence to lead a turnround at its ComStream telecommunications equipment unit in the US. Mr Lawrence joins the Canadian high-tech group from ADC Telecommunications in Minneapolis.

Spar will supply C$11m (US$8m) of antenna equipment to Lockheed Martin for use in Asian mobile communications systems. *Robert Gibbens*

Northwest in Hawaii accord

Northwest Airlines has entered into a marketing and code-sharing agreement with Hawaiian Airlines for travel to and from the Hawaiian islands. Northwest Airlines will also co-ordinate flights to Honolulu from the US and Japan. *AFX News, Minneapolis*

Echo Bay maintains TVI stake

Echo Bay Mines, a medium-sized gold producer, has invested a further C$5.8m (US$4.22m) to maintain its interest in TVI Pacific at 15.7 per cent. The companies are partners in Philippines Gold Exploration and Development and have auctioned a large copper-gold property on Mindanao Island. Internationally-listed Echo Bay operates gold mines in Canada and the US and has joint exploration projects in Brazil, Mexico, Nigeria, Ghana, Peru and Guyana. *Robert Gibbens*

GM plans $850m revamp

General Motors plans to spend $850m on updating its North American sheet metal stamping operations. Under the five-year project, GM will spend $200m on building stamping plants next to two vehicle assembly operations, and the rest on upgrading machinery and buying new equipment. The strategy will result in job cuts. *AFX News, Washington*

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COMPANIES AND FINANCE: ASIA-PACIFIC

Honda surges on back of leisure vehicle sales

By Michiyo Nakamoto in Tokyo

Honda, the Japanese carmaker, yesterday reported a 22 per cent increase in consolidated pre-tax profits, reflecting the company's strong performance in the Japanese market, cost-cutting measures and a better currency environment.

Honda's profits increase from Y94.3bn previously to Y115.1bn ($1.07bn) in the year to March 1996 came on a 7 per cent rise in sales from Y3,966.2bn last time to Y4,252.3bn. Net profits increased 15 per cent from Y61.6bn to Y70.8bn. The firm gains reflected a strong rise in domestic vehicle sales which were supported by the outstanding popularity of a number of recreational vehicles (RVs) it has launched recently.

In the domestic market, Honda increased vehicle sales by nearly 20 per cent at a time when the overall market rose only about 5 per cent. The impressive gains were almost entirely due to strong sales of recreational vehicles, which the company has launched in quick succession and which made up about 40 per cent of sales last year, Honda said. Honda's RVs, based on passenger car platforms, have been popular for their relatively low price and suitability for use in cities, unlike conventional RVs which are based on truck platforms and are more expensive and rugged.

RVs are expected to continue selling strongly in Japan, and Honda expects RVs to comprise 50 per cent of its sales in the current year.

The company has traditionally been stronger in the US than in Japan but last year, its performance in the US was slightly dented by a number of cars, including the Civic, facing model changes.

However, Honda is confident that it can reach its target of selling 920,000 vehicles in North America in the current year, compared with 857,000 last year and 730,000 in Japan, including the Chrysler Jeep. In addition to model changes that are expected to boost demand, it plans to introduce another RV into the US market later this year.

Motorcycle sales declined in Japan, but grew in other regions, particularly in Asia where demand has expanded strongly. Continuing strong demand for its RVs in Japan, further cost-cutting and a better foreign exchange environment should support a firm rise in sales in the current year, Honda believes.

It forecasts a 10.5 per cent increase in sales to Y4,700bn and a 69.5 per cent rise in net profits to Y120bn based on an exchange rate of Y100 to the US dollar.

● The name of Honda's president, Mr Nobuhiko Kawamoto, was given incorrectly in a headline in yesterday's FT. We regret the error.

Japan's general traders double growth in profits

By William Dawkins in Tokyo

Japan's leading general traders, diversified bellwethers of the industrial economy, yesterday reported their fastest annual profits growth for six years, helped by financial gains and expansion of developing economies in south-east Asia.

On average, the top six traders – Itochu, Mitsui, Marubeni, Sumitomo, Mitsubishi and Nissho Iwai – achieved a 15.1 per cent rise in parent company recurring profits, before tax and extraordinary items, in the year to March. It was more than twice the profits growth reported in the previous year. But they all foresee a slowdown in profits growth in the year to next March.

The gap between the best and weakest performers widened – a mark of increased competition between the traders.

Sumitomo led the pack with a 23.6 per cent recurring profits increase and Nissho Iwai brought up the rear with a 10 per cent advance.

At the net level, Nissho Iwai turned in a Y19.9bn ($189.52m) loss after a Y37.7bn write off relating to a failed "tokkin" (special trust fund) investment, a belated hangover from the investment excesses of the late 1980s.

All but two of them – Mitsui and Marubeni – reported sales declines, partly because of an accounting change, the exclusion of precious metal dealing from revenues which was formerly 17 per cent of the top traders' aggregate sales, according to Mr Toshihide Yoda, trading company analyst at UBS Securities in Tokyo.

But sales growth was equally constrained by the drag on exports of Japanese goods created by the yen's strength last year.

This also reflected all traders' continued strategy of moving away from high volume and low margin commission based export-import businesses to higher margin activities ranging from telecommunications to oil and gas production and infrastructure investment in Asia.

Sumitomo and Itochu took advantage of last year's decline in Japanese interest rates to record lows to pad out profits by borrowing money in Japan and lending it to overseas subsidiaries, as well as to make profits from the rise in Japanese bond prices, said trading company analysts.

But Sumitomo also cited exports of industrial plant and semiconductors, plus its Japanese investments in cable television and cellular telephones, as factors in its profits improvement.

Mitsui attributed its 19.4 per cent profits rise to increased dividends from its securities portfolio and a decline in interest payments, as did Itochu in its 11.1 per cent profits increase.

Marubeni attributed its 11.7 per cent profits rise to an increase in offshore and domestic business, which more than compensated for declining import/export contracts. Mitsubishi, which reported a 14.8 per cent recurring profits increase, expects slower profits growth in the current year – 4.6 per cent – because of losses by its gaming affiliate, hit by the counterfeiting of prepaid pinball cards. It set aside Y5bn to cover losses by its 18.5 per cent owned pinball affiliate.

Sumitomo, which also has an investment in a pinball card making company, said that its affiliate continued to make profits despite the counterfeiting problem.

Observer, Page 13

Bumper year for the top six performers (Yen m)

	Sales	Recurring profit*	After-tax profit	Div (Y)	EPS (Y)
Itochu					
Year to Mar 96	15,491,756	40,649	10,221	8.0	7.17
Previous year	15,942,400	36,603	9,436	8.0	6.62
Year to Mar 97†	13,500,000	41,000	11,000	8.0	7.72
Mitsui					
Year to Mar 96	15,182,013	60,445	23,983	8.0	15.44
Previous year	15,063,300	50,844	21,794	7.5	14.03
Year to Mar 97†	13,000,000	62,000	25,500	8.0	16.42
Marubeni					
Year to Mar 96	14,659,263	39,172	11,833	6.0	7.92
Previous year	14,371,300	35,080	7,724	6.0	5.17
Year to Mar 97†	13,000,000	40,000	15,000	6.0	10.04
Sumitomo					
Year to Mar 96	14,388,659	43,944	16,279	8.0	15.29
Previous year	14,629,500	35,547	12,063	8.0	11.33
Year to Mar 97†	12,500,000	45,000	18,000	8.0	16.91
Mitsubishi					
Year to Mar 96	13,496,102	66,868	20,297	8.0	12.95
Previous year	13,812,300	58,287	15,978	8.0	10.20
Year to Mar 97†	11,500,000	70,000	26,000	8.0	16.59
Nissho Iwai					
Year to Mar 96	8,668,598	17,736	-19,960	5.0	-25.45
Previous year	9,277,100	16,104	5,030	5.0	6.41
Year to Mar 97†	7,200,000	18,000	13,000	5.0	16.58

* Before extraordinary items and tax. † Forecast. Source: Companies

Tranz Rail issue to be platform for new projects

By Terry Hall in Wellington

Tranz Rail, the privatised New Zealand Railways Corporation, is to make an international issue of shares aimed at raising NZ$150m (US$102.38m) of new capital, the company said yesterday.

None of the company's existing shareholders – Wisconsin Central, US private investor Berkshire Partners or merchant bank Fay, Richwhite – intends reducing its holdings in the company.

These three companies bought New Zealand Rail from the national government for NZ$328m, plus NZ$70m of debt, in 1993. It made a tax-paid profit of NZ$73.6m in the year to June last year on turnover of NZ$557m.

A total of 27m ordinary shares will be offered, representing 22 per cent of the capital, and provision is being made to issue a further 15per cent to cover over-allotments.

In New Zealand, the ordinary shares will be offered within a range of NZ$4.60 to NZ$6.55. In the US, investors will be offered American depositary shares (ADS) which will be equal to three ordinary shares, and are to be offered in a range of US$9.50 to US$13.50. They will be quoted on the Nasdaq market.

Mr Francis Small, Tranz Rail chief executive, said yesterday that the money would be used to repay debt. This would help it finance a number of capital spending projects over the next few years.

Tranz Rail has already committed itself to replacing three ageing ferries that it operates to carry cargo and passengers across Cook Strait between the North and South Islands.

It is also considering building a new port in South Island.

Up to 1.35m shares will be reserved for employees.

The global co-ordinator will be Goldman Sachs, and the lead manager in New Zealand is FR Partners. In the international offering, the lead managers are Goldman Sachs International and Schroders.

ANZ posts 12% advance to A$520m at interim stage

By Nikki Tait in Sydney

Australia and New Zealand Banking Group, the last of the big Australian commercial banks to report in the current interim season, has unveiled an after-tax profit of A$520m (US$413m) for the six months to end-March.

The result represented a 12 per cent improvement on the A$463m, before abnormals, seen in the same period of 1994-95, but was lower than the A$570m reported for the second half of the last financial year. There were no abnormals in the latest six months.

Yesterday's A$520m profits figure was at the lower end of analysts' forecasts. Nevertheless, with the bank remaining fairly optimistic about second-half prospects and the current state of the credit cycle in its core Australasian market, ANZ shares still gained 4 cents to close at A$6.

The profits result came after a A$102m charge for doubtful debts, slightly less than the A$120m seen a year ago. Net interest income increased from A$1.46bn in the first half of 1994-95 to A$1.65bn, while other operating income was up from A$940m to A$1.01bn.

Mr Don Mercer, chief executive, said that lending for the group overall grew by 6 per cent, with a 5 per cent gain in Australia reflecting strong corporate demand. That, he said, was "a better figure than I can last remember talking about".

In New Zealand, there was an even more marked 9 per cent rise, while international lending shot up by 11 per cent, largely on the back of projects related to the Asian region.

Operating expenses rose from A$1.6bn to A$1.77bn, with the increase mainly personnel-related. The operating expenses to net income ratio was 66.5 per cent, virtually unchanged from 66.4 per cent a year ago, but higher than the 65.5 per cent achieved in the second half of last year.

On a regional basis, Australia contributed A$301m to profits, against A$278m, while New Zealand made A$68m and the international division A$151m, up from A$64m and A$121m respectively last time.

Net non-accrual loans dipped by 12 per cent, to A$950m.

Looking ahead, Mr Mercer said that he had "no doubt we've seen the best of the credit cycle". Like his main rivals, he also conceded that competition was currently "intense" in core Australasian markets, and warned that ANZ would probably see gross interest spreads contract further in the second half.

But he still described the overall second-half outlook for ANZ in fairly positive terms, as "more of the same". "I think you'll see us grow in Australia, and I think you'll see us do better than that in New Zealand and the international markets," he said.

Earnings per share in the half stood at 35.8 cents, up from 31 cents (before abnormals) a year ago, but down from 37.5 cents in the second half of 1994-95. The interim dividend is 18 cents, up from 15 cents.

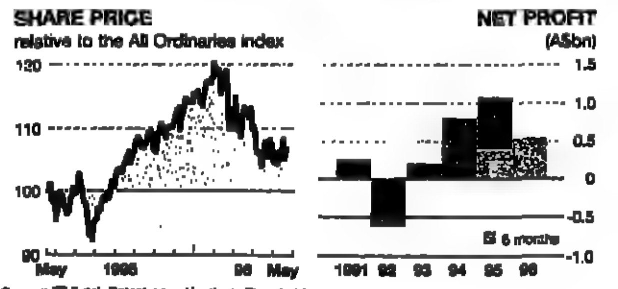
PROFILE:

ANZ Banking Group

Market value: US$6.9bn — Main listing: Australia

Historic P/E	9.6
Gross yield	6.12%
Earnings per share	Cents 35.8
Current share price	A$ 5.96

Chief executive Don Mercer



Source: FT Extel, Datastream, Huntley's Shareholder

NEWS DIGEST

London SE hopeful on Chinese move

The London Stock Exchange hopes moves towards the signing of a memorandum of understanding with the China Securities Regulatory Commission will be expedited to enable Chinese companies to proceed with London listings. Mr Ian Salter (*left*), deputy chairman of the London Stock Exchange, said in Beijing yesterday that, while discussions had been moving slowly, there were signs of quicker progress. Representatives of the CSRC will visit London in July for further talks and there were indications that agreement may be reached this year. Mr Salter said there were no significant obstacles and noted the regulatory frameworks of London and Hong Kong were similar.

China has an agreement with the Hong Kong Stock Exchange under which the listing of Chinese companies is permitted. Beijing also has an agreement with New York and will soon sign a memorandum of understanding with the Australian Stock Exchange.

Mr Salter was attending a symposium on capital markets sponsored by the London Stock Exchange at which the benefits of London listings were outlined. Speakers noted that London offered significant advantages as it was a centre of European finance. Its regulatory requirements were also "less onerous" than those of the US.

Tony Walker, Beijing

Asian expansion for Canon

Canon, the Japanese precision machinery manufacturer, will form marketing joint ventures in the Philippines, Vietnam and India by December, a company spokesman said. The move is part of efforts to raise its sales in the Asia-Pacific region outside of Japan to more than 10 per cent of the total from the current 8 to 9 per cent, he said.

Sales of printers and copiers are expected to rise sharply in these areas, he said, but details of the joint ventures have not yet been decided. Canon already has marketing units in Singapore, Malaysia, Thailand and Hong Kong.

Reuter, Tokyo

Mycom buys UNP stake

Mycom, the Malaysian timber and gaming concern, said yesterday it had agreed to acquire a 60 per cent stake in UNP Plywood for M$48.31m (US$19.4m) cash. UNP is involved in the trading and production of high-quality timber products ranging from plywood to sliced veneer, blackboard and fancy plywood, Mycom said.

The company owns an integrated timber complex in the east Malaysian state of Sabah, which includes a mill equipped with a six-line plywood production facility capable of producing about 20,000 cubic metres of plywood and other related timber products per month.

Mycom said the proposed acquisition was most timely as it complemented its recent acquisition of Veramax, which is also involved in the manufacturing of plywood and other related timber products in Sabah. Together, the two acquisitions would give a total combined production capacity of about 500,000 cubic metres per year, the company said.

Reuter, Kuala Lumpur

NTT scotches DBKom rumour

Nippon Telegraph and Telephone of Japan is not planning to take a stake in Deutsche Bahn AG's telecommunications unit, DBKom, a company spokesman said. The company was responding to a report in a German magazine which said that NTT and other bidders including East Japan Railways, were planning to take a stake of up to 49.9 per cent in DBKom.

AFX-Asia, Tokyo

Total Indonesia

Total Indonesia, a unit of France's Total energy group plans to more than double gas production in Indonesia to 2.2bn standard cubic feet per day (scfpd) by 2000, Mr Bernard Vitry, president and general manager, said. Total currently produces 1.0bn scfpd which includes 800m scfpd from the Tunu field, which is part of the Mahakam block on Kalimantan.

Reuter, Singapore

Approval for new carrier complicates restructuring of Thai Airways

By Ted Bardacke and William Barnes in Bangkok

The restructuring difficulties facing Thai Airways International increased yesterday as Thailand's cabinet approved the creation of a second national airline – likely to be operational sometime in 1998. But the full impact of the new airline on Thai Airways will not be known until policymakers decide whether they want to allow the company to have a stake in the new venture.

The licence for the new airline will be put up for bid by the ministry of transport and communications. Bidders must be composed of at least three Thai companies, who together must hold at least 70 per cent of the new company's shares. Foreign investors can hold up to 15 per cent; foreign airlines up to 5 per cent.

The cabinet did not explicitly prohibit Thai Airways from investing in the new airline. Thai Airways management would like to have a stake, thus facilitating a smooth transition into competition.

A final decision on this issue – unlikely until bids are reviewed later this year – will be crucial. "The key question," said Mr Thamnoon Wanglee, Thailand's president, recently, "is how do we stay competitive, but protected?"

The answer, analysts say, is to focus resources and energy on an internal revamping of the company rather than heading off into a new venture in search of protection. Most important is streamlining a fleet that is inspired more by an airforce-led, commission-driven spending spree a few years ago than by operating efficiency.

Plans call for Thai to reduce its aircraft types from 14 to six; engine types from 11 to six; and pilot certifications from 12 to six. Old aircraft which require a crew of three will be phased out.

Yet the plan requires buying 36 new aircraft over the next five years and the Thai cabinet has so far only approved the purchase of 14.

To do this requires capital. The company, still 93 per cent owned by the ministry of finance, has raised the idea of selling off 200m new shares – but with little success. "I am very doubtful about whether they could get any share issue away," said Mr Michael Millar, an analyst with Crosby Securities in Bangkok. "Who would they sell to? Investors were pretty battered last time." Even a market-beating 25 per cent climb in Thai's share price this year has been insufficient to breach the initial public offering price of Bt60. Only in the first hour of trading four years ago did it ever fly above that level.

Thai Airways: New competition increases the need for course correction

Yet observers agree that it is, ultimately, critical for Thai to sell more shares if it wants to rise above the ranks of airline under-achievers. A share sale would be likely to lower the amount of government and military influence in the company; as a quasi-public company staff cannot be sacked and the board is still chaired by Mr Siripong Thongyai, head of the air force.

"For us to compete, they cannot tie our hands and let the second airline be free in management," said Mr Thamnoon.

In the meantime, Thai Airways' profits, helped by aircraft sales and healthy passenger loads, are growing. In the first six months of the fiscal year, Thai posted year-on-year profit growth of 44 per cent. Long-term debt at the end of 1995 of $2.5bn could expand to around $5.2bn by the end of 1996, according to Baring Securities. The solution may be to issue euroconvertible debentures or similar – perhaps in Japan where the airline has so far launched a total of 18 samurai bond issues. This would leak shares into the market over a number of years.

A dilution in finance ministry control would limit Thai Airways' access to loans of a quality approaching sovereign debt, some analysts warn. But the finance ministry's senior civil servant, Mr Chatumongkol Sonakul, recently warned management that the carrier will remain in the doldrums if it simply buys a new fleet and assumes government backing.

"There must be simultaneous gains elsewhere – the time has come for a serious improvement in operations," Mr Chatumongkol said.

COMPANIES AND FINANCE: UK

British Biotech shares soar

By Daniel Green

The idea that a pill to treat cancer could be on sale in less than three years' time sent shares in British Biotech, its inventor, soaring yesterday.

They rose to £38 as news of progress in clinical trials broke. The tests suggested that more than half of patients suffering from a range of cancers responded well to the drug.

The shares closed up 285p at 3315p, valuing the company at just under £2bn and putting it in line for inclusion in the FT-SE 100 listing on the UK's biggest companies. They could have been bought for less than 450p last year.

The latest trials of the cancer drug, marimastat, confirmed the drug's promise to treat many "solid tumour cancers" including pancreatic, ovarian, colorectal and prostate.

More than half the 232 patients that have completed 28 days dosing showed a good response to the drug, and that good response correlated statistically with longer average survival times.

Dr Peter Lewis, British Biotech's research and development director, said: "These are the best possible results we could have expected at this stage in the drug's development."

The share price rise is the latest in the company's short history. Founded in 1986, the company was floated in 1992 and still employs only 350 people.

But its progress has split the City. Mr Peter Laing, pharmaceuticals analyst at Salomon Brothers, the stockbroker: "This price is ludicrous. You can buy US biotech stocks for a quarter of the price."

Mr Ian Smith, at Lehman Brothers, argued that the new trials' results justified a valuation of about £40 a share and blamed the share price reverse on selling by more cautious US investors.

The company will now discuss with medicines regulatory authorities such as the Food and Drug Administration in the US the details of the final phase of drugs testing.

These tests would be the first in which marimastat would be compared with a placebo in a statistically significant way.

The company says that if these are a success, the drug could be launched in 1998. Analysts say that if the drug looks good, regulators would allow a launch sooner than that, possibly in 1998.

Marimastat aims to stop the spread of cancer, unlike other cancer drugs which try to kill tumours.

Since all solid tumours spread in a similar way, the drug might work in many cancers. It is being tested in 10.

Not killing cells also changes the side-effects of the drug. Some patients suffered hand and shoulder pains which Mr Lewis said were an inflammation of the tendons that may be the result of the drug interfering with the body's attempts to repair itself.

Allied Domecq sells Continental for £49m

By Christopher Brown-Humes

Allied Domecq, the spirits and retailing group, said it had almost completed its promised withdrawal from food manufacturing after agreeing yesterday to sell its Continental Bakeries unit to Hillsdown Holdings for £49m ($74.5m).

The group has raised £600m from selling eight food businesses - including Tetley Tea, Lyons cakes and biscuits and a US ingredients business called DCA - in the last 20 months.

It remains under pressure to improve performance, after a drop in underlying profits from spirits contributed to the 20 per cent fall in interim pre-tax profits announced last week.

Continental is a pan-European biscuit manufacturer, which achieved operating profits, after minorities adjustment, of £2.9m on sales of £127m in 1995.

It operates from 11 factories in Holland, France, Germany and Belgium and has 60 per cent of Hagemann, a German trading and distribution group. Brands include Haust biscuits in the Benelux countries and the French Picard brand of biscotte and toasted bread products.

The purchase will broaden Hillsdown's predominantly UK-based biscuit operations, making it one of Europe's leading biscuit makers with annual sales of more than £350m.

Mr David Newton, Hillsdown chief executive, said the group knew the North European market well and would now gain "a pan-European capability in yet another of its principal activities." There would be synergies with its existing biscuit activities, he stated.

Thorn EMI shelves plans for FONA sale

By Alice Rawsthorn

Thorn EMI, the leisure group which plans to demerge its music and rental interests this summer, has shelved plans to sell FONA, its Danish chain of electronics and music stores.

FONA, which belongs to the Thorn part of the group, was put up for sale in February. Thorn said yesterday that although a number of prospective purchasers had expressed interest in the business, none of their offers had matched its expectations in terms of value.

The 53-strong FONA chain is a well known retail name in Denmark with estimated operating profits of £15m ($22.8m) on sales of £142m in the 12 months to March 31 last year.

FONA was put on the market as part of Thorn's long term strategy of concentrating on the rental and rent-to-buy sector, rather than conventional retailing.

Thorn has already made a number of disposals under this strategy and hoped to complete the process by selling FONA before it is spun off into a separate company following Thorn EMI's imminent demerger.

Thorn, which operates in 17 countries through businesses including Radio Rentals in the UK and Rent-A-Center in the US, plans to retain FONA for the forseeable future. However, it hopes eventually to sell the Danish chain.

Since EMI, meanwhile is pressing ahead with the final preparations for its proposed demerger, which has prompted bid speculation on EMI Music, which boasts the Beatles, George Michael, Radiohead and the Smashing Pumpkins on its roster.

RESULTS

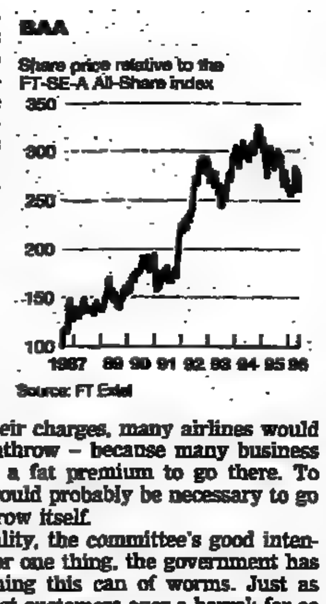
		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Africas Gold ♦	Yr to March 31	1.1	(0.327)	0.375♦	(0.022)	0.38	(0.03)	-	-	-	-	-
Brookes Tool	6 mths to March 31	10.6	(9.06)	0.304	(0.186)	0.7	(0.5)	0.1	-	-	-	0.2
Budgin (AF)	Yr to Jan 31	20.3	(18.2)	1.03	(0.903)	2.46	(2.27)	0.45	Aug 1	0.4	0.45	0.4
Chesterfield Props	Yr to Dec 31	37.2	(33.8)	7.97	(9.12)	20.8	(23.14)	9	June 11	8.5	13.4	13
Eldridge Pope §	6 mths to March 31	28.2	(24.8)	0.88	(0.88)	3.72	(3.26)	1.85	July 27	1.85	-	4.6
El Oro Mining	Yr to Dec 31	2.23♣	(2.13)	1.98	(1.88)	31.01	(31.61)	21	Oct 31	20	21	20
Enterprise Inns	6 mths to March 31	12.4	(11.7)	3.54	(2.39†)	7.01	(10.54)	2.25	July 3	-	-	-
Exploration Co	Yr to Dec 31	2.76	(2.62)	2.33	(2.5)	13.76	(14.34)	10.5	Oct 31	10	10.5	10
Hozelock	6 mths to March 30	20.9	(18.4)	3.3	(2.9)	9.2	(7.8)	3.1	July 16	2.7	-	8.7
Jarvis Porter	Yr to Feb 28	81	(70.9)	14	(10.6)	20†	(18.1)	4.8	July 26	4.1	6.75	6
Marks and Spencer	Yr to March 31	7,231	(6,806)	965.6♣	(924.3)	24.3	(22.6)	8.4	Aug 2	7.5	11.4	10.3
Readicut Intl	Yr to March 31	234.2	(234.8)	8.27♦	(14.1)	3.15	(4.86)	2.81	Aug 10	2.81	3.44	3.44
Trinity Care ♦	Yr to March 31	7.2	(4.1)	0.713	(0.607)	16.6†	(20.1)	3.3	July 31	3	4.8	4.5
Vosper Thornycroft	Yr to March 31	237.8	(248.8)	27.7	(25)	57.9	(52.8)	18.7	Aug 14	14.9	23.5	21

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Archimedes	6 mths to April 30	651.21	(620.07)	0.194	(0.158)	15.8	(12.87)	11	Aug 2	9	-	28
Baring Stratton	Yr to March 31	303.2	(238.3)	0.252	(0.345)	2	(2.73)	2.29	July 8	2.29	2.29	2.29

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♦After exceptional charge. ♣After exceptional credit. †On increased capital. ♠Aim stock. §USM stock. ♣Income.

LEX COMMENT

BAA



Another day, another regulatory scare. This time it was the turn of BAA shares to suffer – following a Commons transport committee suggestion that the company's monopoly on London's three principal airports should be broken up. The committee's idea is perfectly sensible, if about 10 years late. The snag, if anything, is that it does not go far enough: even if Heathrow had to compete with Gatwick and Stansted, it would still be under only pretty feeble pressure. The reason is that, however aggressively Gatwick and Stansted cut their charges, many airlines would still be desperate to use Heathrow – because many business travellers are happy to pay a fat premium to go there. To deliver real competition, it would probably be necessary to go further, and break up Heathrow itself.

So much for theory. In reality, the committee's good intentions are pretty academic. For one thing, the government has shown no interest in reopening this can of worms. Just as important, BAA has its biggest customers over a barrel: for as long as the airlines want it to build Heathrow's Terminal 5, they are unlikely to antagonise BAA by pressing the issue.

Still, yesterday's jitters are a timely reminder that BAA is a highly regulated business. It is also one facing a potentially tough regulatory review. As the last review showed, Terminal 5 gives it a trump card the utilities do not have – the potential to mobilise support from its customers – which makes a gas-style outcome unlikely. Even so, on their current handsome premium to the market, the shares are allowing precious little for regulatory risk.

Acorn planning to sell network computer

By Paul Taylor

Acorn Computer, the Cambridge-based technology group that pioneered educational computing in the UK with the BBC Micro, plans to become one of the first companies to sell a network computer – a low-cost easy-to-use device designed to surf the Internet.

It won a contract in January from Oracle, the second largest computer software group in the world after Microsoft, to design a family of network computers, including desktop and portable models which will each cost less than $500 (£320). Yesterday Acorn's share price which has tripled in the past 12 months, closed 15p higher at 303p.

Mr David Lee, Acorn's chief executive, confirmed yesterday that as part of its new strategy focused on network-centric computing, Acorn will contract out the manufacturing of a machine – dubbed the Acorn NetSurfer – and begin sales this autumn.

He declined to identify the manufacturers of the NetSurfer, however the company has invited bids from a number of potential UK-based suppliers including D2D, the ICL subsidiary. ICL confirmed yesterday that its Manchester-based subsidiary had been approached and would be "keen" to win the contract.

Mr Lee, who demonstrated two of the devices in London yesterday, said Acorn had "a window of opportunity" to be first with the device because of its close relationship with its sister company, Advanced RISC Machines, and its experience with interactive television trials including the Cambridge trial launched two years ago.

Mr Lee said Acorn expected to sell the machines initially to corporate customers such as retailers and financial service companies and to the education market through its Xemplar Education joint venture.

PERSONAL

Vosper moves ahead to £28m

By Tim Burt

Vosper Thornycroft Holdings, the warship builder, yesterday reported a 10 per cent increase in profits in spite of growing competition and overcapacity in defence-related shipbuilding.

Although sales fell from £248.9m to £237.8m, the company saw pre-tax profits rise from £26m to £27.7m ($42.1m) in the year to March 31.

The figures were enhanced by a £5m contribution from Vosper's non-shipbuilding activities, including facilities management and electronic controls. Lord Wakeham, the former cabinet minister who became the group's chairman last year, said profits from such businesses had offset volatility in warship orders.

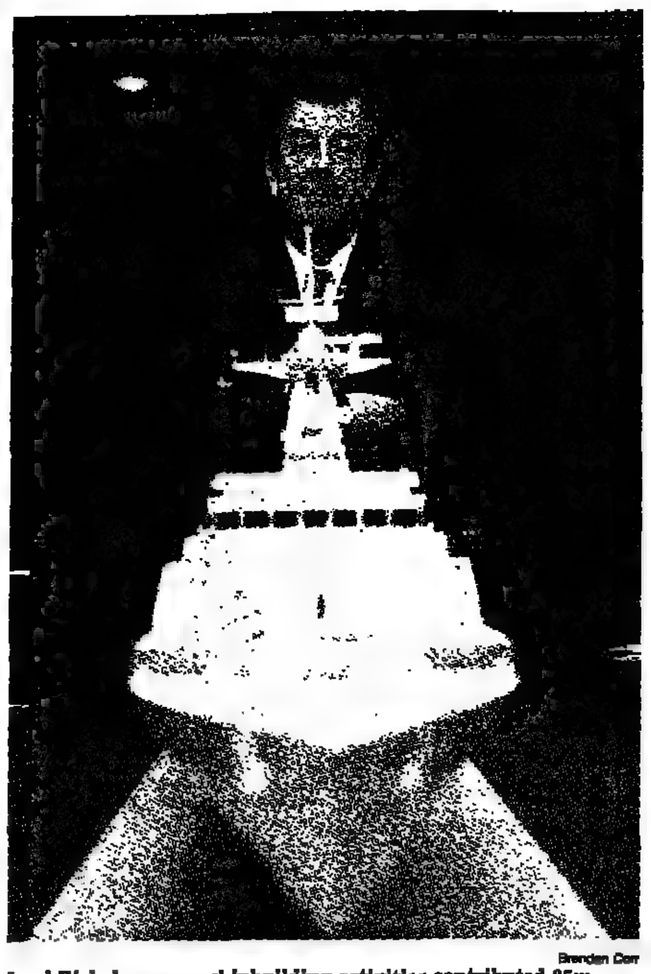
He predicted that non-shipbuilding operations would contribute up to 40 per cent of operating profits in coming years. Those activities have been bolstered by the group's success in winning management contracts for GCHQ – the government intelligence centre – and the Royal Navy's flagship training project.

Mr Chris Girling, finance director, said such contracts would contribute revenues of about £400m over the next five years. Nevertheless, he emphasised that warship building would remain the group's core activity, with a forward order book worth more than £450m.

Payments for completed ships, notably for the Saudi and Qatari navies, helped lift operating profits from £18m to £20.8m. The figure would have been higher, said Mr Girling, but for a £3.8m exceptional charge to cover redundancy payments to 300 workers.

The lay-offs – announced earlier this year – were blamed on Vosper's failure to win part of the recent Royal Navy order for three Type 23 frigates.

Vosper, nevertheless, said it was confident of winning further orders and remained a leading contractor for the Common New Generation Frigate, a collaborative warship programme between Britain, France and Italy.



Brendan Corr

Lord Wakeham: non-shipbuilding activities contributed £5m

RJB makes first overseas foray

By Patrick Harverson and Nikki Tait

RJB Mining, the UK's dominant coal mining group, is embarking on its first foray into overseas markets with the purchase of a large stake in an Australian resources company.

RJB, which bought the bulk of state-owned British Coal's mines 18 months ago, has agreed to spend A$136m (£71.5m) acquiring up to 43 per cent of CIM Resources, owner of 70 per cent of the Stratford coal project in New South Wales.

Mr Richard Budge, chief executive, said RJB was moving overseas because of the poor expansion opportunities at home, where the group accounts for 85 per cent of all coal production.

"We will concentrate on UK coal for the long-term, but to get growth for shareholders we need to look elsewhere," he said. However, Mr Budge said RJB would not be rushing into other overseas ventures. "We will take it one at a time. We need to see how this goes first."

RJB will subscribe initially for 25m shares in CIM at 90 cents a share. In addition, it will have an option to buy a further 50m shares at 100 cents a share in the following 12 months. If exercised, this option would take RJB's holding to 29.5 per cent.

Finally, should CIM make coal-related acquisitions worth over A$850m within 12 months, RJB has the right to subscribe for a further 60m shares at 106 cents a share. Its stake would then reach 42.9 per cent.

CIM shares rose 6 cents to 88 cents on the Sydney stock exchange.

RJB will pay cash for its CIM investment. It has a relatively strong balance sheet – gearing was 49 per cent at the start of the year – which has enabled the group to announce a £100m share buyback programme.

CIM was listed as a Perth-based exploration company in the mid-1980s. However, three years ago, its management changed and the new incumbents have attempted to build up production assets in the coal sector. CIM's gold exploration assets were floated off, as a separate listed company, earlier this year.

Pension costs peg M&S advance

By Christopher Brown-Humes

Marks and Spencer would have broken through the £1bn ($1.52bn) profit barrier for the first time last year if it had not been for additional pension costs, Sir Richard Greenbury, chairman, said yesterday.

He was speaking after the group announced a 7.2 per cent rise in pre-tax profits from continuing operations to £994m for the year to March 1996. Group pre-tax profits rose from £924m to £965.8m while group sales rose 6.3 per cent to £7.2bn.

The group said a strong performance from financial activities, an increased contribution from Brooks Brothers of the US, and a 65 per cent surge in net interest income to £54.8m had bolstered its results.

But it noted that its figures had been affected by poor UK clothing sales last autumn, difficult conditions in some of its European markets, and a weak Canadian performance. Last autumn's warm weather increased the cost of post-Christmas reductions.

Group clothing sales rose 3.9 per cent while food sales, after 3 per cent inflation, were up 5.4 per cent. The group said this had enabled it to maintain its market shares and margins.

Financial services lifted operating profits by 26 per cent to £61m, bolstered by a rapid growth of personal lending.

The expanding overseas operations also made progress, and now account for more than 17 per cent of group sales. This was despite difficult conditions in Europe and the effects of strikes in France.

M&S said a valuation had found a £90m shortfall in the actuarial value of the pension scheme and the cost to the company of steps to make this up were £18.1m in the full year.

COMMODITIES AND AGRICULTURE

Asarco boss sees more copper deficits

By Kenneth Gooding, Mining Correspondent

Virtually alone among copper market commentators, Mr Richard Osborne, chairman of Asarco of the US, the world's fourth largest private sector producer of the metal, suggests that there will be supply deficits this year and in 1997.

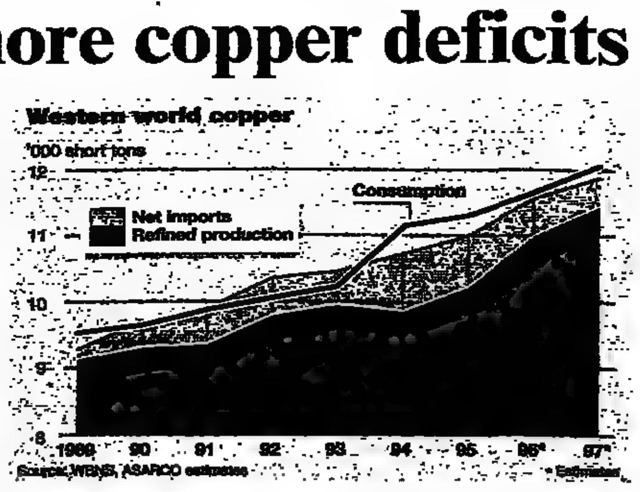
At presentations to investors and analysts he has been pointing out that Asarco's forecasts of future east-west trade are mainly responsible for it being out of step with the consensus.

Asarco sees net exports from the former eastern bloc and China to the west falling to 644,000 short tons this year, 22 per cent down from the 829,000 tons seen in 1995. Net exports are likely to fall again, to 494,000 tons, next year.

China will be responsible for most of this fall, says Mr Osborne. He estimates that China will import 220,000 tons of copper in 1996 and 198,000 tons next year, well above the 1994 and 1995 levels when net imports into China were 105,000 tons and 64,000 tons respectively. "In 1994 we saw a drawdown in [China's] internal stocks of over 180,000 tons which led to a dramatic fall in imports from the west," says Mr Osborne. "These shifts have run their course. Imports into China seem to be rising again."

Another factor that differentiates Asarco's forecasts from the rest, he suggests, is that some other analysts fail to appreciate the strength of copper demand growth, particularly in developing countries. "The early stages of economic development are very copper intensive and we are now seeing this in south east Asia, Latin America and mainland China," he says.

Consequently, copper consumption, even after ten straight years of records, is predicted by Asarco to outstrip supply in the western world by 20,000 tons this year and 71,000 tons in 1997. This follows supply deficits of 428,000 tons in 1994 and 234,000 tons last year.



LME WAREHOUSE STOCKS (As at Thursday's close) tonnes		
Aluminium	+2,850	to 847,125
Aluminium alloy	+940	to 85,880
Copper	+775	to 311,675
Lead	-50	to 89,125
Nickel	-45	to 35,010
Zinc	-2,300	to 596,175
Tin	-205	to 9,250

EU agri-environment programmes cost £1bn

By Alison Maitland

European Union member states spent Ecu1.3bn (£1bn) last year on payments to farmers to improve the environment, the Organisation for Economic Co-operation and Development said yesterday.

Payments are made to producers to cut the use of fertilisers and pesticides, control soil erosion, reduce the concentration of animals on grazing land, improve the landscape and encourage wildlife.

The money involved is small compared with the Ecu15.8bn spent last year on direct payments for arable crops and beef, the OECD said in its annual report on agricultural policies, markets and trade. But it had risen from very low levels in 1991 "and will increase with the implementation of new programmes".

The so-called agri-environment programmes, drawn up as part of the 1992 MacSharry reforms of the Common Agricultural Policy, vary considerably between countries, according to the report.

In Austria, 91 per cent of the land is eligible for payments, compared with only 3 per cent in the Netherlands.

Countries spending most on the schemes are Germany, which has committed Ecu1.6bn between 1994 and 1997, France, at Ecu1.3bn, and Italy, at Ecu1.2bn. Austria spent Ecu570m last year alone.

The UK's budget, approved in 1994, amounts to Ecu370m, and Ireland's Ecu280m. The EU funds up to half or three-quarters of the cost, depending on the poverty of the region.

While Sweden, Greece and Belgium emphasise organic farming, France is putting most of its budget towards maintaining extensive grassland, with 17 per cent of agricultural land eligible for payments.

Environmental organisations, as well as the OECD, have expressed concern that some programmes may amount to little more than back-door aid for farmers with no obvious benefit for the environment.

European water under threat from farming

By Frances Williams in Geneva

Eastern European countries could create new environmental hazards if their farmers take up the intensive farming practices common in western Europe, the United Nations Economic Commission for Europe said yesterday.

The ECE, which is organising a meeting this week in Zagreb on good agricultural practices jointly with the UN's Food and Agriculture Organisation, says modern agriculture is depleting water resources and causing damaging pollution of water supplies.

Farmers in eastern Europe cannot now afford the capital investments and inputs of fertilisers and pesticides required for intensive farming. But the ECE fears this may be only a matter of time, especially if farmers in western Europe are persuaded to change their ways. In that event, "it is very likely that chemical companies would see eastern Europe as a new market with extraordinary potential".

The proportion of irrigated land in western Europe has risen over the past 30 years from 10 to 25 per cent in western Europe and from 15 to 40 per cent in southern Europe. "This irrigation policy leads to an increased demand for water, a decline in groundwater resources and a multiplication of droughts," the ECE says.

Between 10 and 80 per cent of nitrogen fertilisers end up in groundwater, which makes many water resources unsuitable for drinking. Also, 2 to 4 per cent of the total amount of pesticides used finds its way into ground and surface water.

Animal manure, increasingly in the form of slurry rather than straw manure, is also a big water pollutant.

Norscan pulp stocks fall again

By Robert Gibbens in Montreal

North American and Scandinavian (Norscan) pulp producers' stocks fell in April for the second month in succession but are still too high, analysts here say. Preliminary figures suggest that the total dropped by about 250,000 tonnes, or 10 per cent, to 2.275m tonnes. March's decline had been the first since mid-1995.

Norscan shipments in March, the latest available numbers, were 1.56m tonnes, up 2.6 per cent from February, with good gains in Europe and Japan. Canadian shipments alone in April, just announced, were 713,000 tonnes, the highest since September 1995, with strength noted in the European and Asia-Africa markets. Canadian producers reported 44 days supply of market pulp at April 30, down from 53 days at March 31.

Latin American and Asian producer stocks are believed also to have declined in April.

Norscan stocks are still 700,000 tonnes too high, says Mr John Johnson, analyst with Richardson Green Shields Canada, in Vancouver. Also producers had about 450,000 tonnes of annual capacity out of production in April. Producers must accept discipline if the temporary global pulp glut is to be overcome, he warns.

Weyerhaeuser, the leading producer, has so far not joined the industry move to increase softwood pulp transaction prices by US$40 to $560 on June 1. But analysts expect some part of the increase to hold and prices may firm later as Norscan stocks dip towards 1.5m tonnes.

● About 2,000 unionised workers at three Quebec newsprint mills of Stone-Consolidated, one of North America's top two newsprint producers, voted on Monday to reject the company's pay offer. Negotiations are to resume shortly, however, and analysts do not expect a strike.

Problems pile up for NZ livestock sector

Many farmers could face forced sales, writes Terry Hall

New Zealand sheep and beef farming – the mainstay of the country's agricultural sector for over a century – is in serious trouble. A special report from the Ministry of Agriculture says the problems are coming to a head for farmers who have faced severe difficulties for over a decade – since the 1985 Labour government decided to force them to stand on their own feet and removed all tax and other incentives and all forms of assistance.

The report says sheep and cattle farmers are under severe financial pressure and many face forced sales. The coming financial year looks little better and will "test the resilience, morale and and skills of an even larger group of farmers".

Farmers are being badly hit by a combination of high interest and exchange rates and a protracted period of low prices, the ministry says. Many farms are now in a run-down state, limiting their ability to recover quickly to take full advantage of any recovery in prices. Up to 10 per cent of farmers will not be able to continue to farm as they are doing at present, the report warns. So they must consider such options as selling, leasing or subdividing their property or finding ways to increase their income by finding jobs off the farm.

"There are now a significant number of young farmers who have not had any good years to repay debt, restore the farm to its productive capacity or carry out further development," the report says.

Only increases in land values, which have been largely unrelated to profitability, have kept the farmers in business by keeping their equity levels high.

The report says farm values have risen by an average 5.3 per cent a year over the past ten years. However, in its latest report the Real Estate Institute said that prices of traditional beef and sheep farms had begun to fall over recent months due to low farm profitability, and many were selling below government valuations.

The ministry confirms this, adding: "Sheep and beef farm values are falling, especially in areas not suitable for forestry or converting to deer or dairy farms". It says forestry companies have realised this and are now offering NZ$600 (US$400) less a hectare than a year ago.

A further depressing influence on land values, it adds, is that new dairy farmers – who had been converting cattle to dairy units in their search for higher profitability – are now having to contribute large sums to help establish new dairy factories and so can pay less for land for conversion.

The ministry says many farmers will be able to pay interest only on their mortgages this financial year. Even the best run larger operations are in danger where debt servicing costs exceed 20 per cent of gross income.

Despite their concern at the plight faced by many farmers, the trading banks have given Federated Farmers a pledge to take a "long term view on farm lending" and there have been very few forced sales. The ministry reports that farmers have felt particularly vulnerable to rising interest rates as the Reserve Bank has tightened monetary policy to deal with inflation. "The past 10 years of low financial returns have really come to a head for many farmers in the 1995-96 financial year, the second in a row of very low product prices."

It says farmers' morale is very low in response to much lower than expected wool prices and very poor cattle prices, which are 35 per cent below those in 1993-94. This raises the prospect of a total bobby calf kill this season of 1.6m head (up from 1.3m last season) which "does not bode well for the beef industry as it means there will be virtually no dairy beef calves to rear and finish".

The report says farmers have been fortunate in that the summer and autumn has been one of the best for many years. If there had been a drought or other natural calamity they would have faced a very serious financial situation given the low stock prices. "While some improvement in wool prices is expected, the outlook for lamb and beef is for prices to stay around current levels."

Western Australian steel deal signed

By Nikki Tait in Sydney

Taiwan's An Feng Steel Company and Kingstream Resources, the Australian exploration group, have signed a formal heads of agreement for the "Midwest iron and steel project", near Geraldton in Western Australia. Kingstream revealed that the two companies were close to an agreement last week.

Kingstream said the A$1.4bn project aimed to produce 2.4m tonnes a year of steel slab at Narngulu, using ore from Tallering Peak, Koolanooka and Blue Hills.

As previously announced, equity participation will be split 70 per cent to the Taiwanese and 30 per cent to Kingstream. An Feng will also purchase Kingstream's share of production for ten years on a take-or-pay basis.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1567-8	1591-2
Previous	1545.5-6.5	1580-0.5
High/low	1554/1551	1598/1582
AM Official	1549-50	1584-4.5
Kerb close		1583-4
Open int.	228,373	
Total daily turnover	78,308	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1300-05	1340-45
Previous	1295-301	1335-40
High/low		1345/1335
AM Official	1298-305	1338-9
Kerb close		1340-5
Open int.	4,971	
Total daily turnover	1,489	

■ LEAD ($ per tonne)

Close	835-6	832-3
Previous	831-2	827-8
High/low	831/830	832/828
AM Official	829-30	825-6
Kerb close		829-31
Open int.	36,010	
Total daily turnover	8,039	

■ NICKEL ($ per tonne)

Close	7915-25	8020-25
Previous	7940-50	8045-50
High/low	7996	8140/7950
AM Official	7995-6	8105-10
Kerb close		7960-65
Open int.	42,111	
Total daily turnover	17,565	

■ TIN ($ per tonne)

Close	6220-30	6260-70
Previous	6195-205	6230-40
High/low		6270/6220
AM Official	6220-25	6259-60
Kerb close		6230-40
Open int.	17,095	
Total daily turnover	7,134	

■ ZINC, special high grade ($ per tonne)

Close	1037-8	1063-4
Previous	1028-9	1055-6
High/low		1066/1060
AM Official	1036-6	1062.5-3.0
Kerb close		1062-3
Open int.	72,358	
Total daily turnover	16,872	

■ COPPER, grade A ($ per tonne)

Close	2510-15	2452-54
Previous	2472-7	2428-9
High/low	2510	2463/2430
AM Official	2515-18	2455-7
Kerb close		2430-1
Open int.	189,227	
Total daily turnover	118,177	

■ LME AM Official £/$ rate: 1.5117
LME Closing £/$ rate: 1.5128

Spot: 1.5120 3 mths: 1.5098 6 mths: 1.5080 9 mths: 1.5068

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
May	116.70	+0.30	119.00	116.70	970	3,204
Jun	114.55	+0.75	116.70	114.55	295	3,545
Jul	111.55	+0.35	114.25	111.10	15,731	17,687
Aug	110.55	+0.25	112.80	111.00	38	737
Sep	109.85	+0.45	112.30	109.10	1,081	5,304
Oct	109.20	+0.50	111.25	109.50	65	557
Total					20,422	N/A

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	390.30-390.70		
Opening	391.30-391.70		
Morning fix	391.20	258.150	492.716
Afternoon fix	391.00	258.376	495.202
Day's High	391.70-392.10		
Day's Low	389.40-389.80		
Previous close	391.10-391.50		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.55	6 months	4.28
2 months	4.48	12 months	3.98
3 months	4.46		

Silver Fix	p/troy oz.	US cts equiv.
Spot	528.50	349.50
3 months	534.30	353.85
6 months	540.80	358.35
1 year	553.95	367.95

Gold Coins	$ price	£ equiv.
Krugerrand	403-406	266-268
Maple Leaf	401.40-403.90	-
New Sovereign	91-94	60-62

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	390.7	+0.1	-	-	-	-
Jun	391.4	+0.1	392.4	389.8	23,043	68,869
Jul	392.8	+0.1	-	-	-	-
Aug	394.4	+0.1	395.4	392.6	4,027	42,236
Oct	397.1	+0.1	397.5	395.4	115	5,919
Dec	399.7	-	400.9	398.0	791	33,215
Total					28,948	203,769

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	401.2	-	401.7	398.8	2,917	20,234
Oct	404.2	-	404.5	402.0	139	4,245
Jan	406.8	-	407.5	405.5	3	980
Apr	409.5	-	409.0	408.5	12	1,402
Total					3,086	26,861

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	130.90	+1.90	130.90	128.00	1,982	4,072
Sep	132.10	+1.90	132.00	129.50	1,159	4,651
Dec	133.10	+1.95	132.50	130.75	31	389
Total					3,142	9,312

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	526.8	+2.4	528.5	523.0	84	84
Jun	527.7	+2.3	531.0	531.0	-	3
Jul	529.8	+2.3	532.0	526.0	17,203	86,263
Sep	535.0	+2.3	536.5	531.0	693	14,577
Dec	542.7	+2.3	545.5	539.0	323	10,058
Mar	550.5	+2.4	551.5	550.5	86	3,680
Total					18,592	100,799

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	22.20	-0.28	22.80	21.83	39,963	32,564
Jul	20.57	-0.20	20.85	20.35	93,878	97,854
Aug	19.72	-0.26	20.10	19.58	28,364	53,579
Sep	19.14	-0.34	19.57	19.02	17,893	36,670
Oct	18.80	-0.40	19.21	18.72	3,448	22,899
Nov	18.72	-0.29	18.95	18.50	2,350	16,876
Total					189,873	420,026

■ CRUDE OIL IPE ($/barrel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	18.44	-0.17	18.56	18.27	16,164	90,730
Aug	18.01	-0.22	18.10	17.85	8,119	31,304
Sep	17.59	-0.31	17.80	17.57	1,102	12,853
Oct	17.46	-0.34	17.62	17.39	665	9,415
Nov	17.25	-0.38	17.37	17.25	88	5,083
Dec	17.14	-0.31	17.25	17.12	1,390	13,029
Total					26,999	187,178

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	54.50	-0.74	55.25	53.95	11,215	16,395
Jul	53.15	-0.17	53.65	52.75	7,502	19,889
Aug	52.65	-0.32	53.10	52.50	3,341	15,080
Sep	52.90	-0.32	53.30	52.80	1,426	9,645
Oct	53.50	-0.27	53.75	53.30	547	5,207
Nov	54.00	-0.32	54.25	53.85	314	5,236
Total					30,588	102,203

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	164.75	+3.50	165.50	163.00	7,826	15,238
Jul	161.25	+3.25	162.25	160.25	3,913	10,981
Aug	160.50	+3.50	161.50	158.75	1,227	6,733
Sep	161.00	+3.25	161.75	160.00	635	4,251
Oct	161.25	+3.25	162.50	161.00	64	1,871
Nov	161.50	+3.25	161.50	161.50	8	1,420
Total					14,626	52,322

■ NATURAL GAS NYMEX (10,000 mmBtu., $/mmBtu.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	2.335	+0.011	2.360	2.321	14,176	22,183
Jul	2.390	-0.022	2.440	2.370	12,743	31,576
Aug	2.405	-0.007	2.440	2.380	7,403	18,249
Sep	2.360	-0.005	2.385	2.350	1,987	16,112
Oct	2.330	-0.005	2.350	2.325	1,674	12,486
Nov	2.360	-	2.375	2.355	947	8,718
Total					41,883	155,437

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	65.30	-0.74	67.25	64.15	17,734	21,449
Jul	63.35	-0.58	65.00	62.50	10,080	21,079
Aug	61.00	-0.55	61.85	60.35	4,269	14,610
Sep	58.80	-0.70	59.45	58.60	1,355	4,148
Oct	55.00	-1.55	55.70	55.00	6	1,508
Nov	53.80	-0.95	53.80	53.80	1	1,034
Total					33,458	66,192

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	127.25	+1.50	127.00	126.00	29	12
Jul	129.00	+1.25	129.25	128.25	89	1,887
Sep	116.00	-0.40	116.00	116.00	12	370
Nov	116.70	-0.85	117.10	116.70	278	3,224
Jan	118.75	-0.85	119.00	118.85	49	876
Mar	120.75	-0.60	121.10	120.65	81	148
Total					604	6,495

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	595.00	-29.00	659.00	595.00	31	174
Jul	576.25	-8.75	594.00	575.50	8,732	55,886
Sep	573.00	-8.75	590.00	572.00	2,287	16,729
Dec	580.50	-6.50	595.00	579.00	2,735	18,582
Mar	576.00	-2.00	587.00	576.00	73	1,853
May	520.00	-3.00	-	-	8	173
Total					14,806	94,409

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	524.50	-4.50	536.00	520.00	867	1,030
Jul	501.25	-1.75	513.50	500.50	40,707	157,498
Sep	405.75	-13.00	423.75	404.50	12,477	78,051
Dec	342.00	-7.50	355.50	341.00	21,789	153,393
Mar	347.50	-7.25	360.00	347.00	721	18,497
May	349.00	-8.00	360.00	349.00	188	2,932
Total					77,298	489,267

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	115.50	-0.85	116.00	116.00	5	39
Sep	100.50	-	108.05	108.00	9	60
Nov	110.00	-0.40	110.35	110.00	75	615
Jan	112.25	-1.00	-	-	-	129
Mar	114.50	-	-	-	-	41
Total					89	886

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	796.00	-4.00	804.00	796.00	420	140
Jul	798.50	-7.50	811.00	797.50	31,807	79,334
Aug	798.50	-6.50	809.50	798.00	2,124	12,844
Sep	778.00	-7.50	789.50	778.00	563	6,987
Nov	765.50	-8.25	779.50	765.00	15,477	77,979
Jan	771.50	-7.50	783.00	771.50	238	7,238
Total					51,544	196,347

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
May	26.40	-0.10	26.62	26.50	380	307
Jul	26.74	-0.03	26.90	26.63	18,809	47,319
Aug	26.94	-0.07	27.07	26.82	1,174	11,737
Sep	27.13	-0.13	27.25	26.99	291	5,824
Oct	27.20	-0.06	27.28	27.18	821	4,526
Dec	27.55	-0.07	27.67	27.42	3,150	19,881
Total					25,323	93,218

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
May	245.0	-	247.0	245.0	1,233	336
Jul	247.9	-2.4	249.8	245.3	15,568	48,624
Aug	247.9	-2.0	249.7	246.3	1,459	11,783
Sep	245.8	-1.9	247.2	244.3	362	7,393
Oct	242.5	-2.7	243.0	240.0	656	3,665
Dec	242.9	-3.3	243.5	239.7	2,503	18,715
Total					21,879	93,694

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	225.0	-	-	-	-	-
Nov	82.5	-	-	-	-	-
Mar	110.0	-	-	-	-	-
Apr	123.7	+2.2	125.5	121.0	107	1,074
May	141.0	-	-	-	-	-
Total					107	1,074

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
May	1378	+15	1368	1364	10	618
Jun	1277	+9	1275	1268	16	577
Jul	1240	+19	1240	1229	59	2,036
Oct	1345	+15	1345	1330	28	1,251
Jan	1378	+14	-	-	-	53
Apr	1370	+15	-	-	-	32
Total					113	4,580

	Close	Prev
BFI	1401	1408

FUTURES DATA
All futures data supplied by CMS.

Minor Metals
European free market, from Metal Bulletin, $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). Antimony: 99.6%, $ per tonne, 2,875-3,050 (2,785-3,100). Bismuth: min. 99.99%, tonne lots 3.30-3.80 (3.40-3.85) Cadmium: min. 99.95%, 110-120 cents a pound. Cobalt: MB free market, 99.8%, 27.60-28.20 (28.20-28.70); 99.3%, 26.00-26.50 (26.40-27.10). Mercury: min. 99.99%, $ per 76 lb flask, 160-180 (165-175). Molybdenum: drummed molybdic oxide, 2.85-2.90 (2.90-3.10). Selenium: min 99.5%, 3.30-4.10. Tungsten ore: standard min, 65%, $ per tonne unit (10kg) WO_3, cif, 52-62. Vanadium: min. 98%, cif, 3.05-3.15. Uranium: Nuexco exchange value, 14.50 (13.75).

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1040	-28	1067	1064	4	38
Jul	1095	-16	1117	1081	2,881	21,481
Sep	1116	-15	1135	1100	1,174	48,181
Dec	1047	-8	1057	1037	2,119	29,589
Mar	1035	-7	1044	1029	2,311	34,500
May	1045	-8	1048	1041	264	19,280
Total					8,881	183,365

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1358	-13	1376	1347	10,443	29,884
Sep	1374	-10	1390	1363	2,824	20,468
Dec	1391	-14	1412	1385	684	18,340
Mar	1408	-14	1413	1400	118	13,505
May	1420	-14	1425	1435	34	6,085
Jul	1430	-14	-	-	7	3,630
Total					13,880	97,880

■ COCOA (ICCO) (SDR's/tonne)

May 20	Price	Prev. day
Daily	1057.81	1080.72

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	2010	-3	2020	2010	127	1,150
Jul	1940	+7	1943	1925	2,031	16,689
Sep	1925	+6	1926	1910	449	7,347
Nov	1914	+1	1924	1910	230	3,028
Jan	1892	+2	1897	1885	22	1,771
Mar	1856	+1	1867	1857	10	779
Total					2,869	30,764

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	124.20	-1.80	126.75	124.00	3,754	19,209
Sep	123.30	-1.80	125.30	123.00	616	5,682
Dec	121.05	-1.75	123.25	121.00	220	2,951
Mar	119.40	-2.10	120.75	119.00	46	935
May	118.25	-1.75	121.00	118.25	19	337
Jul	117.25	-1.80	-	-	-	89
Total					7,998	29,683

■ COFFEE (ICO) (US cents/pound)

May 20		Prev. day
Comp. daily	111.76	113.51
15 day average	112.36	112.29

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	378.4	-4.4	381.9	377.5	1,248	10,342
Oct	348.2	-1.6	349.1	346.8	437	5,849
Dec	337.0	-0.8	335.9	335.5	80	3,554
Mar	332.2	+0.4	332.8	331.2	42	3,236
May	330.4	+0.5	330.0	330.0	12	1,184
Aug	329.2	+0.6	330.0	330.0	1	306
Total					1,825	24,769

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	11.39	-0.11	11.49	11.28	21,322	62,030
Oct	10.88	-0.05	10.89	10.79	8,403	35,337
Mar	10.79	-0.05	10.84	10.72	4,843	29,012
May	10.74	-0.05	10.79	10.69	1,058	8,904
Jul	10.68	-0.05	10.69	10.66	905	5,719
Oct	10.62	-0.05	-	-	557	2,556
Total					37,220	148,988

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	80.92	+0.04	81.75	80.80	3,084	23,995
Oct	81.40	+0.52	81.70	81.25	271	4,182
Dec	81.27	+0.57	81.35	80.90	2,344	28,319
Mar	82.10	+0.57	82.20	81.90	115	3,441
May	82.75	+0.60	82.70	82.70	-	-
Jul	83.08	+0.60	82.60	82.60	1	638
Total					5,834	84,444

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	120.65	+0.15	122.20	120.60	1,062	11,739
Sep	120.00	-0.10	121.20	120.00	332	4,710
Nov	118.00	-0.25	118.00	116.00	37	1,332
Jan	114.40	-0.25	115.85	114.00	65	3,588
Mar	116.20	-0.25	116.00	116.00	-	258
May	117.70	-0.75	-	-	-	150
Total					1,993	21,788

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100)

May 21	May 20	month ago	year ago
2128.0	2122.6	2141.4	2317.5

■ CRB Futures (Base: 1967=100)

May 20	May 17	month ago	year ago
258.24	258.59	261.74	234.72

■ GSCI Spot (Base: 1970=100)

May 20	May 17	month ago	year ago
212.03	207.61	212.35	184.27

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	58.700	-0.175	58.900	58.100	5,532	35,486
Aug	62.450	-0.250	62.600	61.875	8,200	28,612
Oct	64.975	+0.100	64.850	64.275	2,748	21,124
Dec	62.275	-0.050	62.550	62.000	1,302	11,056
Feb	61.475	-0.100	61.675	61.350	663	8,366
Apr	64.300	-0.200	64.600	64.200	101	2,042
Total					17,588	98,637

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	65.175	-1.500	66.375	65.175	4,418	14,116
Jul	60.725	-1.375	61.950	60.600	2,528	10,241
Aug	56.600	-0.825	57.650	55.800	1,462	8,522
Oct	51.825	-0.600	52.475	51.200	682	5,806
Dec	54.100	-0.825	54.900	53.825	480	5,871
Feb	74.275	-0.825	74.900	73.800	23	981
Total					9,817	44,429

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	88.600	-1.250	90.000	87.850	213	737
Jul	84.325	-1.700	86.225	84.025	2,401	8,010
Aug	81.100	-1.425	83.000	80.575	669	2,368
Feb	77.000	-2.000	79.500	77.000	60	539
Mar	77.950	-2.000	80.150	77.950	5	48
May	82.200	-2.000	82.200	82.200	3	61
Total					3,341	9,767

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jun	Sep	Jun	Sep
1500	84	113	3	21
1600	7	54	46	60
1700	3	21	138	125
■ COPPER (Grade A) LME	Jun	Sep	Jun	Sep
2300	186	144	3	43
2400	97	86	12	84
2500	35	48	49	145
■ COFFEE LCE	Jul	Sep	Jul	Sep
1900	110	186	69	161
1950	84	163	94	188
2000	64	145	124	220
■ COCOA LCE	Jul	Sep	Jul	Sep
875	221	244	-	3
900	196	221	-	5
925	171	199	-	8
■ BRENT CRUDE IPE	Jul	Aug	Jul	Aug
1850	36	40	-	-
1900	27	-	-	-
1950	8	17	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$16.94-7.04x	+0.14
Brent Blend (dated)	$18.79-8.85	+0.31
Brent Blend (Jul)	$18.48-8.50	+0.14
W.T.I.	$20.57-0.60x	+0.285

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$225-227	
Gas Oil	$170-172	+3
Heavy Fuel Oil	$93-95	+5
Naphtha	$186-188	+2
Jet fuel	$188-190	+3
Diesel	$174-176	+3

■ NATURAL GAS (Pence/therm)

Bacton (Jun)	10.10-10.60	+0.50

Petroleum Argus. Tel. London (0171) 359 8792

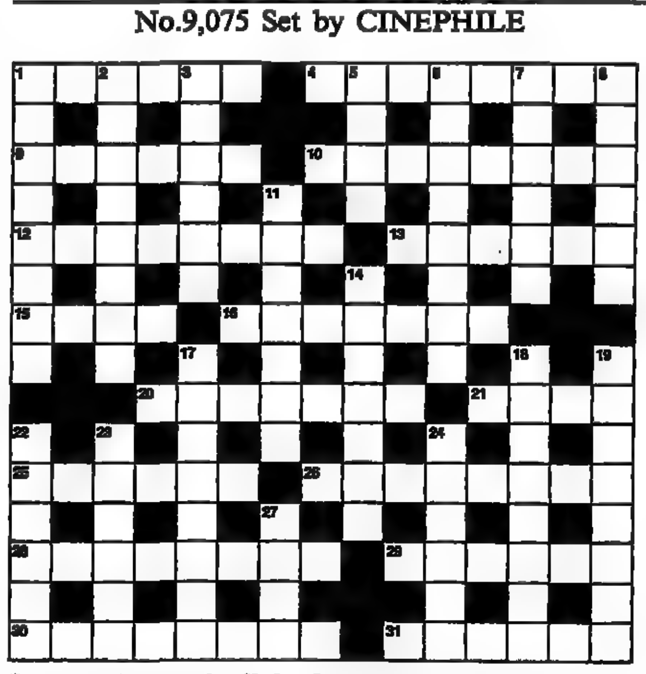
■ OTHER

Gold (per troy oz)♣	$390.50	-0.80
Silver (per troy oz)♣	529.50c	+1.0
Platinum (per troy oz.)	$397.70	+0.85
Palladium (per troy oz.)	$128.25	-2.00
Copper	134.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	15.42r	-0.48
Tin (New York)	292.50	-2.0
Cattle (live weight)	98.70p	-3.40*
Sheep (live weight)	140.16p	-40.35*
Pigs (live weight)†	128.73p	+5.43*
Lon. day sugar (raw)	$299.3	+2.2
Lon. day sugar (wte)	$400.9	-4.6
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	Unq	
Wheat (US Dark North)	Unq	
Rubber (Jun)♥	104.00p	+0.25
Rubber (Jul)♥	104.00p	+0.25
Rubber (KL RSS No1)	377.50m	
Coconut Oil (Phil)§	805.0v	
Palm Oil (Malay.)§	$540.0z	
Copra (Phil)§	$503.0z	
Soyabeans (US)	228.0z	
Cotton Outlook'A' index	82.30c	
Wooltops (64s Super)	446p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z May/Jun. x Jul. v Apr/May. y Apr/Jun. w Jun/Jul. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 3,280 head of pigs sold.

CROSSWORD

No.9,075 Set by CINEPHILE

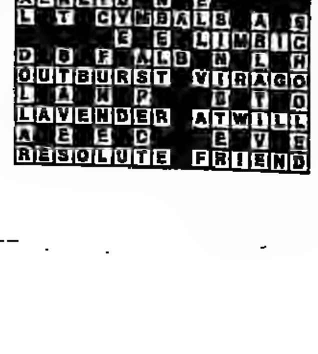


SF means the same in all the clues, except that once it is plural

ACROSS
1 SF could be mine: I'm a darling to the left (6)
4 Too many people for banks to accommodate? (8)
9 Small SF: about time, the poor fool! (6)
10 Admirable character, constant, wealthy and a heavyweight (8)
12 Fellow in robbery: his aim is pleasure (8)
13 Sound of force in SF (6)
15 Get money for hostage when right out of SF (4)
16 Girl in gang getting us caught by SF (7)
20 SF's rest broken after a high-ball (7)
21 Find fault with SF's apple (4)
25 SF who's without love for deer (6)
26 Cob with a shade for the eyes on the head? (8)
28 SF is a goose (8)
29 SF is a rogue, nothing more (6)
30 When people are at school, some — the enemy (4-4)
31 SF could be the world to you (6)

DOWN
1 In trouble she enters Poole mistakenly: result, despair (4,4)
2 Gospel county to reduce price (4,4)
3 Judge's wear: I'm not sure if it belongs to me (6)
5 Verse has a short line to make a difference (4)
6 Whence to get help for a bill for the racecourse (8)
7 Student with an essay he's only just written? (6)
8 SF with pickers? (6)
11 Take up a cause, particularly by river (7)
14 American bird, a dismal sort of walker (4,3)
17 Accepted caster's offer and joined in (4,4)
18 Broadcast: it follows the Poles in a vehicle (8)
19 A striker to the Irish in place of death (8)
22 Front is back when bird's around: it's almost worthless (3-3)
23 Model's mistake due to panic (6)
24 Sussex head seems to be suffering (6)
27 SF demands some exclamation (4)

Solution 9,074



INTERNATIONAL CAPITAL MARKETS

Most European centres lose their early gains

By Samer Iskandar in London and Lisa Bransten in New York

Most European bonds reversed early gains to end the day mixed or slightly lower. French OATs benefited most from comments of Mr Olaf Sievert, a member of the Bundesbank board.

Mr Sievert predicted that German M3 money supply growth would soon slow clearly, that a stronger dollar was beneficial to the German economy, and that there was room for the Bundesbank to lower its repo rate further.

German bunds traded quietly and ended almost unchanged. Liffe's June bund future closed at 96.90, down 0.01. Traders expect the market to remain in a narrow range until the M3 money supply data for April is released later this week.

■ French bonds reacted positively to Mr Sievert's comments, and received added support from the strength of the dollar against the D-Mark. Matif's June notional future rose steadily throughout the morning to a high of 123.80, before closing at 123.66, up 0.26.

However the contract suffered from profit-taking in after-hours trading on Globex, reaching a low of 123.50.

In the cash market, the 10-year benchmark OAT rose by 0.06 to 105.75, its yield spread over the equivalent bund tightening by 2 basis points to 2 points. Sentiment was still buoyant after the close, but some observers warned of a growing risk of social unrest.

■ Italian bonds reversed part of Monday's gains. Liffe's June BTP future settled at 115.65, down 0.23. In the cash market, the 10-year spread of BTPs over bunds widened by 4 basis points to 317 points.

Strategists at Sanwa International believe the rally in BTPs is nearing its end, given that "the prospective easing of monetary policy already is priced in [long yields]". They believe a 300 basis point yield spread over bunds would represent a selling opportunity, with a potential longer-term widening to around 400 basis points.

GOVERNMENT BONDS

■ Spanish bonds had a positive day. The 10-year bono future closed at 98.99, up 0.08, after reaching a high of 99.42. Mr Mark Fox, chief European strategist at Lehman Brothers, said traders had started switching out of BTPs into bonos when the 10-year spread reached an historical low.

Although he did not rule out further outperformance of both markets in the near future, Mr Fox warned that strong believers in convergence could be disappointed later this year. A sell-off could widen Italian and Spanish yield spreads over bunds by about 50 basis points, possibly by this autumn.

■ Gilts had another quiet session. Liffe's June long gilt future settled at 106$\frac{7}{16}$, down $\frac{11}{32}$. In the cash market, the yield spread over bunds widened by 5 basis points to 174 points.

Gilts were not affected by the release of money supply data showing the M4 aggregate had grown by 10 per cent year-on-year in April, in line with expectations. Meanwhile, the Bank of England said it would auction £3bn of the 8 per cent gilt due 2021 on May 29.

■ US Treasury prices edged higher in quiet trading early yesterday as investors awaited the conclusion of the Federal Reserve's Open Market Committee meeting.

Near midday, the benchmark 30-year Treasury was up ⅛ at 89$\frac{17}{32}$ to yield 6.821 per cent and the two-year note was $\frac{1}{16}$ higher at 99$\frac{13}{32}$, yielding 5.976 per cent. The June 30-year bond future remained just below the 110-point barrier with a gain of $\frac{1}{16}$ to 109$\frac{29}{32}$.

The yield curve that traces the spread between the two-year note and the long bond steepened by 3 basis points to 85 basis points as the 30-year bond underperformed other parts of the maturity spectrum.

All eyes were on the Federal Reserve, even though the consensus was nearly unanimous on Wall Street that the central bank would leave interest rates unchanged.

Many were hoping, however, that the Fed would make some comment about its view of the economy at the conclusion of the meeting.

Also supporting the bond market was a modest decline in commodity prices and an increase in the value of the dollar against the D-Mark.

The Knight Ridder-Commodity Research Bureau commodity index fell 0.47 to 258.77. In early trading, the US currency gained nearly a pfennig against the D-Mark, changing hands at DM1.5419 compared with DM1.5341 late on Monday.

Bankers welcome Vietnam debt deal with London Club

By Jeremy Grant in Hanoi

Bankers in Vietnam ought to be breathing more easily with the announcement this week that Hanoi has at last made peace with its London Club creditors over commercial debt of about $900m.

Hanoi's lingering debt has been one of the main factors restricting foreign banks and has imposed strict provisioning requirements on lending since banks started arriving in the country four years ago.

SYNDICATED LOANS

But despite the issue moving closer to resolution – the deal has yet to be accepted by all Hanoi's creditors – most bankers dismiss suggestions that the way has been cleared for a surge in syndicated and other lending.

"I'm sure that this will reduce the level of provisioning we'll have to make but the risk is still there and we have to be quite selective," said Mr Marc Tequi, Hanoi representative for Banque Francaise du Commerce Exterieure (BFCE).

Only a few syndicated loans have been done in Vietnam. Most have been underwritten by the arranging and participating banks' branches offshore. However, a $32m three-year loan concluded last year by BFCE for a Heineken joint venture brewery was the first onshore facility in Vietnam.

Last week, ANZ Bank and participating banks signed a $25m syndicated five-year loan for Vietnam Posts & Telecommunications (VNPT), the first facility granted onshore to a state-owned company.

This cautious approach is based on a number of concerns. There are still very few Vietnamese companies with businesses strong enough to attract foreign bank interest. VNPT is exceptional in that it enjoys healthy revenues from burgeoning international calls.

The market is also extremely competitive. More than 20 banks have full operating licences but all are chasing a small pool of potential customers, mainly joint ventures and state-owned companies with solid export revenues such as Vinasteel, Vinacool and cement corporation Vinacimex.

"We're all concentrating on the same type of business and margins are shrinking," said Mr Pierre-Alexandre Muyl, general manager at Credit Lyonnais in Hanoi. He added that margins on trade finance transactions have narrowed to about 100–150 basis points from 200–250 basis points six months ago.

In addition, Vietnam's sovereign debt picture is still clouded by outstanding debt of Rbs10.5bn owed to Moscow. Hanoi's foreign exchange reserves stand at around $900m, only enough to cover five weeks of imports.

Also, although it is possible to take property, machinery and land-use rights as collateral, no bank has yet exercised this security in a Vietnamese court in the case of default.

One problem for OECD banks is that their non-OECD competitors, mainly Asian banks such as Malayan Banking and Korea Development Bank are unaffected by London Club provisioning. They have been aggressive in syndication and have made inroads into the Vietnamese market.

The question now facing banks such as Citibank, Standard Chartered, and Deutsche Bank is how long they are prepared to sustain narrow margins as they wait for suitable conditions under which to establish solid market share.

World Bank makes surprise return to five-year dollar sector

By Conner Middelmann

The World Bank made a dazzling comeback in the five-year dollar sector yesterday, issuing a $1bn global bond which sold out within hours.

It was the World Bank's first dollar global since last July, and its unheralded appearance took many dealers by surprise. However, "we saw an opportunity to do a well-priced, well-placed global bond, taking advantage of a window of investor demand," said Ms Deborah Danker, senior manager of the World Bank's dollar and yen funding division.

The bank has kept a relatively low profile over the past year, launching only three global bonds while raising most of its funds in niche markets and through smaller, arbitrage-driven deals. That mix is set to continue in the bank's new fiscal year which begins July 1, said Ms Danker.

The bonds were priced to yield 7 basis points over Treasuries at the re-offer price. While that appeared tight, joint book-runners CS First Boston and Goldman Sachs said the deal was oversubscribed and that the spread narrowed to around 6.5 basis points. About 20 per cent of the transaction was placed in the US, with the rest evenly split between Asia and Europe.

INTERNATIONAL BONDS

The strong performance of the issue and healthy international demand for five-year dollar paper are thought to have inspired other borrowers.

Canada is expected to launch a $1bn to $1.5bn five-year bond, priced at 14 to 16 basis points over Treasuries, with Goldman Sachs and Morgan Stanley tipped as arrangers.

Ford is also waiting in the wings with a long-planned $750m five-year deal via Merrill Lynch and Lehman Brothers.

Other dollar deals included a $300m 10-year issue for the Federal Home Loan Mortgage Corporation via Nomura, yielding 25 basis points over Treasuries, and a $300m two-year deal for DSL Bank via Nomura and SBC Warburg, yielding 3 basis points below Treasuries.

The D-Mark sector was also active, with a DM500m offering for Bayerische Hypothekenbank Finance and DM400m for Fried Krupp Finance, the funding arm of the German steel manufacturer.

The unrated Krupp bonds were deemed attractively priced at a spread of 58 basis points over domestic German bonds and, according to lead manager WestLB, saw good retail demand in Germany and Switzerland.

The BayernHypo deal, yielding 10 basis points over domestic paper, was also deemed fairly priced but dealers said both deals were slow to get off the ground, because of fragile sentiment in the bund market.

Poland has short-listed five banks to bid for the mandate to arrange its D-Mark debut. They are thought to be CS First Boston, Deutsche Bank, Dresdner Bank, J. P. Morgan and SBC Warburg. The deal, of around DM200m, is expected in late June or early July.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
World Bank	1bn	6.375#	99.742R	May 2001	0.25R	+7(6¾%-01)	CSFB/Goldman Sachs
First USA CCMT, 96-3, A(a)‡	400	(a1.1)	100.00R	Jun 1999	0.15R	-	UBS
Federal Home Loan Mtg Corp	300	6.75	99.206R	May 2006	0.325R	+25(6⅞%-06)	Nomura International
DSL Bank(j)	300	6.00	99.90R	Jun 1998	1.125R	-3(5⅞%-98)	Nomura/SBC Warburg
Empresas ICA	150	11.875#	99.98R	May 2001	1.125R	+550(6¾%-01)	ING Barings
Cie Financière de CIC(b)‡	100	(b1)	99.55R	Jun 2001	0.625R	-	Chemical Inv'ment Bank
Unibanco	100	7.875#	99.93R	Jun 1997	undisc	+235(T-bill)	SBC Warburg
D-MARKS							
Bayernhypo Finance	500	5.50	101.40	Jun 2001	2.00	-	Bayerische Hypo
Krupp Finance	400	6.50	101.41	Jun 2003	2.75	-	Westdeutsche Landesbank
Landeskreditbank Stuttgart(i)	250	5.00	100.20R	Jun 2000	0.225R	+55(5¾%-00)	CSFB-Effectenbank
YEN							
NationsBank Corp	10bn	3.05	100.00	May 2002	0.30	-	UBS
SWISS FRANCS							
Toda Kogyo Corp(c)◆	100	0.50	100.00	Jun 2000	1.625	-	Banque Kankaku Suisse
STERLING							
Compagnie Bancaire(d)‡	50	(d1.a)	99.80R	May 2001	0.175R	-	HSBC Markets
FRENCH FRANCS							
Merrill Lynch & Co	1bn	6.875	99.416R	Jun 2006	0.425R	+53(7¼%-06)	BNP/C Lyonnais/Merrill
ITALIAN LIRE							
World Bank(e)	250bn	zero	41.85	Jun 2006	1.00	-	Cariplo/Credito Italiano
DRACHMAS							
European Investment Bank(f)‡	30bn	(f1)	100.00R	Mar 2000	0.20R	-	Alpha Credit/Barclays Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ♦ Unlisted.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	108.1610	-0.210	8.76	8.77	9.05
Austria		6.125	02/06	98.0000	+0.180	6.40	6.42	6.55
Belgium		7.000	05/06	102.3800	-0.010	6.66	6.69	6.73
Canada *		8.750	12/05	107.8700	+0.410	7.60	7.71	7.76
Denmark		8.000	03/06	104.3600	-0.020	7.35	7.39	7.44
France	BTAN	5.750	03/01	101.0000	+0.350	5.51	5.59	5.72
	OAT	7.250	04/06	105.7500	+0.080	6.44	6.43	6.57
Germany Bund		6.250	04/06	98.7700	-0.030	6.42	6.43	6.46
Ireland		8.000	08/06	102.8900	-0.100	7.57	7.63	7.92
Italy		9.500	02/06	100.8600	-0.080	9.36†	9.54	10.25
Japan	No 140	6.600	06/01	119.0981	-0.130	2.26	2.51	1.98
	No 182	3.000	09/05	98.2124	-0.450	3.26	3.34	3.25
Netherlands		6.000	01/06	97.8200	-0.040	6.30	6.33	6.44
Portugal		11.875	02/05	117.3600	+0.020	8.91	9.05	9.28
Spain		8.800	04/06	97.8200	+0.080	9.12	9.18	9.38
Sweden		6.000	02/05	85.8170	-0.160	8.35	8.41	8.40
UK Gilts		8.000	12/00	104-24	-3/32	7.40	7.38	7.47
		7.500	12/06	96-09	-11/32	8.03	8.06	8.07
		9.000	10/08	108-24	-6/32	8.12	8.15	8.18
US Treasury *		6.875	05/06	101-26	-	6.61	6.59	6.48
		6.000	02/26	89-19	-2/32	6.82	6.84	6.84
ECU (French Govt)		7.500	04/05	104.0700	+0.080	6.87	6.90	7.01

London closing, *New York mid-day. Yields: Local market standard.

US INTEREST RATES

BOND FUTURES AND OPTIONS

UK GILTS PRICES

FT-ACTUARIES FIXED INTEREST INDICES

FT FIXED INTEREST INDICES

GILT EDGED ACTIVITY INDICES

FT/ISMA INTERNATIONAL BOND SERVICE

Other Fixed Interest

CURRENCIES AND MONEY

MARKETS REPORT

Verbal support takes dollar to 16 month high

By Philip Gawith

The dollar yesterday rallied to a 16 month high against the D-Mark following verbal support for a stronger dollar from a senior Bundesbank official.

Mr Olaf Sievert, a Bundesbank council member, provided the market with a signal to buy dollars when he told an audience in Leipzig that "a rise of a few pfennigs in the dollar would be good for the German economy."

This took the dollar to an intra-day high of DM1.5435 in Europe. It later closed in London at DM1.5415, from DM1.5347 on Monday. *Against the yen it finished at Y107.06, from Y107.115.*

Earlier the dollar had been under some pressure following *sceptical* comments about European monetary union, which supported the D-Mark, from Mr Wilhelm Nolling, a former Bundesbank official.

Sterling was a beneficiary of the firmer dollar, with the trade-weighted index finishing at 84.8, the highest level in the rally since hitting a historic low of 82.2 on November 20. *Against the D-Mark it closed at* DM2.3331, from DM2.3207. Against the dollar it finished at $1.5136 from $1.5122.

Analysts pointed out that the three per cent rally in sterling effectively offset the 75 basis point cut in UK interest rates since last December.

In Sweden, the central bank trimmed the repo rate to 6.5 per cent from 6.7 per cent.

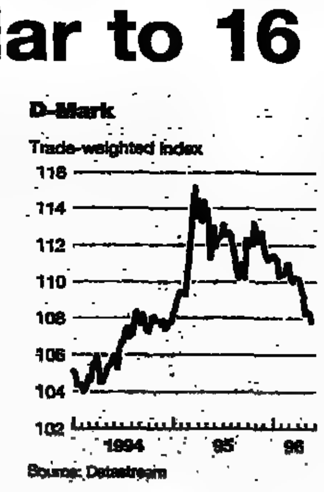
Activity was generally fairly subdued ahead of the meeting of the Federal Open Market Committee in the US, although there was little expectation of any shift in US interest rates.

■ The dollar's rally off historic lows last year against the yen and D-Mark has been so dogged that it has at times been possible to lose sight of the overall trend. But as recently as last October, the dollar was trading around DM1.38, and in late February it was still down at DM1.45.

The dollar's rally looks more impressive when put into context. Mr Nick Parsons, currency strategist at Paribas Capital Markets, notes that for the first time in ten years the dollar has risen against the D-Mark for four quarters in succession. Against the yen, it has risen for three successive quarters, something not achieved since the dollar's great bull run ahead of the Plaza Accord in 1985.

Economists at Merrill Lynch, meanwhile, note that from trough to peak, the dollar rallies of 1988-89, 1991 and 1992-93 each climbed by 20-25 per cent. If the current dollar rally matches these gains, it will reach DM1.65-70.

D-Mark



Source: Datastream

Mr Brian Martin, economist at Barclays in London, said that while the trend towards "gradual dollar appreciation" was clearly in place, it was in neither Germany or the US's interest to have the dollar appreciate faster. From the US perspective, there was the danger that it could hit export performance.

Germany, meanwhile, depended on foreign bond purchases to finance its budget deficit, and hence "had to be careful not to show that they favour longer term (inflationary) depreciation of the currency."

■ While the market remains in favour of a stronger dollar, Mr Richard Koo, senior economist at the Nomura Research Institute in Tokyo, advances a speculative thesis as to why the US government might favour a weaker currency.

Mr Koo's premise is that the priority of Mr Robert Rubin, the US treasury secretary, is to achieve the re-election of President Clinton. He speculates that this might best be achieved through a "stable and weak dollar" which would be advantageous to Wall st - "a weak dollar would encourage Japanese investment in the USA and low long term interest rates" - and to Main st (by making US exports more competitive). A key part of Mr Koo's argument is that unlike in the Eighties, when Japanese investors "pursued rising values", they now buy when prices are low. Mr Koo presumes Mr Rubin will have noticed this fact, and hence will favour a weaker dollar.

"US investment will not become particularly popular amongst Japanese investors if the dollar merely breaks through the Y105 level. A fully fledged interest in US investment will only rise amongst domestic (Japanese) investors once the dollar has broken through (below) Y100."

"A level between Y90-100 is the most suitable in terms of its impact both on structural reform and the economy," says Mr Koo.

■ The dollar's rally off historic lows

■ Pound in New York

May 21	--Latest--	-- Prev. close --
£ spot	1.5130	1.5145
1 mth	1.5122	1.5138
3 mth	1.5107	1.5122
1 yr	1.5045	1.5073

■ OTHER CURRENCIES

May 21	£	$
Czech Rp	41.8800 - 41.9361	27.6640 - 27.6740
Hungary	225.884 - 225.874	149.150 - 149.200
Iran	4541.70 - 4539.60	3000.00 - 3000.00
Kuwait	0.4539 - 0.4542	0.2999 - 0.3000
Poland	4.0425 - 4.0474	2.6715 - 2.6735
Russia	7573.57 - 7581.91	5002.00 - 5006.00
U.A.E.	5.5578 - 5.5609	3.6729 - 3.6732

WORLD INTEREST RATES

MONEY RATES

May 21	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3⅜	3⅜	3⅜	3⅜	3½	7.00	2.50	-
week ago	3¼	3⅜	3⅜	3⅜	3½	7.00	2.50	-
France	3⅞	3⅞	3⅞	3⅞	3⅞	3.70	-	5.60
week ago	3¾	3⅞	3⅞	3⅞	3⅞	3.70	-	5.60
Germany	3⅜	3⅜	3⅜	3⅜	3⅜	4.50	2.50	3.30
week ago	3⅜	3⅜	3⅜	3⅜	3½	4.50	2.50	3.30
Ireland	5½	5⅜	5⅜	5⅜	5⅝	-	-	6.25
week ago	5⅝	5⅝	5⅜	5⅜	5⅝	-	-	6.25
Italy	9¼	8⅞	8¾	8⅝	8⅜	-	9.00	9.25
week ago	9⅛	8⅞	8¾	8⅝	8⅜	-	9.00	9.25
Netherlands	2⅜	2⅝	2⅝	2⅝	2⅞	-	3.00	3.30
week ago	2⅜	2⅝	2⅝	2⅝	2⅞	-	3.00	3.30
Switzerland	2⅛	2⅛	2⅛	2⅛	2¼	5.00	1.50	-
week ago	2⅛	2⅛	1⅞	2	2¼	5.00	1.50	-
US	5¼	5⅜	5⅜	5⅝	5¾	-	5.00	-
week ago	5⅜	5⅜	5⅜	5⅝	5⅞	-	5.00	-
Japan	½	½	½	½	1	-	0.50	-
week ago	½	½	½	½	¾	-	0.50	-
■ $ LIBOR FT London Interbank Fixing	-	5⅜	5½	5⅝	5⅞	-	-	-
week ago	-	5⅜	5½	5⅝	5⅞	-	-	-
US Dollar CDs	-	5.10	5.09	5.25	5.57	-	-	-
week ago	-	5.10	5.12	5.26	5.60	-	-	-
ECU Linked Ds	-	4⅜	4⅜	4⅜	4⅜	-	-	-
week ago	-	4⅜	4⅜	4⅜	4⅜	-	-	-
SDR Linked Ds	-	3⅜	3⅜	3⅜	3⅝	-	-	-
week ago	-	3⅜	3⅜	3⅜	3⅝	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

May 21	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅝ - 3½	3⅝ - 3½	3½ - 3⅜	3⅝ - 3½	3⅝ - 3½	3¾ - 3⅝
Danish Krone	4⅜ - 4¼	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3¾	4⅛ - 3⅞
D-Mark	3⅝ - 3⅜	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3½ - 3⅜
Dutch Guilder	2⅝ - 2½	2⅝ - 2½	2⅝ - 2½	2¾ - 2⅝	2¾ - 2⅝	2⅞ - 2¾
French Franc	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3¾	4 - 3⅞	4⅛ - 4
Portuguese Esc.	7⅜ - 7¼	7⅜ - 7¼	7⅜ - 7¼	7⅜ - 7¼	7⅜ - 7¼	7½ - 7⅜
Spanish Peseta	7⅝ - 7½	7⅝ - 7½	7⅝ - 7½	7½ - 7⅜	7½ - 7⅜	7⅝ - 7½
Sterling	6⅛ - 6	6⅛ - 5⅞	6⅛ - 5⅞	6⅛ - 6	6¼ - 6⅛	6⅝ - 6½
Swiss Franc	3¼ - 3	2⅜ - 2¼	2⅜ - 2¼	2¼ - 2⅛	2¼ - 2⅛	2⅜ - 2¼
Can. Dollar	4⅞ - 4½	4⅝ - 4½	4⅝ - 4½	4⅞ - 4¾	4⅞ - 4¾	5⅜ - 5¼
US Dollar	5⅜ - 5¼	5⅜ - 5¼	5⅜ - 5¼	5⅝ - 5½	5⅝ - 5½	5⅞ - 5¾
Italian Lira	9¼ - 9⅛	9⅛ - 9	9 - 8⅞	8⅞ - 8¾	8⅝ - 8½	8⅜ - 8¼
Yen	½ - ⅜	½ - ⅜	½ - ⅜	⅝ - ½	¾ - ⅝	⅞ - ¾
Asian $Sing	2 - 1⅞	2 - 1⅞	2⅛ - 2	2⅛ - 2	2¼ - 2⅛	2⅝ - 2½

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.04	96.03	+0.04	96.04	96.03	1,553	51,357
Sep	95.99	96.06	+0.04	96.07	96.05	1,357	53,727
Dec	95.90	95.96	+0.03	95.98	95.93	541	30,426

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.74	96.74	+0.01	96.77	96.72	23809	178241
Sep	96.78	96.77	-	96.82	96.75	[illegible]	[illegible]
Dec	96.59	96.60	+0.01	96.65	96.58	35934	209217
Mar	96.32	96.33	+0.02	96.37	96.29	27301	153710

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	91.43	91.44	-0.02	91.47	91.40	8081	54275
Sep	92.05	92.04	-0.03	92.10	92.00	5958	39551
Dec	92.20	92.20	-0.03	92.26	92.18	2185	27518
Mar	92.20	92.18	-0.03	92.22	92.18	924	10210

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.84	97.84	+0.02	97.90	97.81	3514	21916
Sep	97.81	97.81	+0.03	97.87	97.75	[illegible]	27536
Dec	97.62	97.60	+0.05	97.66	97.56	1640	10992
Mar	97.32	97.34	+0.03	97.40	97.29	580	5642

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	99.37	99.38	+0.03	99.38	99.37	235	-
Sep	99.16	99.16	+0.07	99.10	99.16	611	-
Dec	98.86	98.87	+0.08	98.88	98.87	579	-

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.66	95.66	-	95.68	95.64	1222	6789
Sep	95.73	95.78	+0.02	95.78	95.73	538	4719
Dec	95.60	95.65	+0.02	95.65	95.60	300	3566
Mar	95.42	95.42	+0.01	95.45	95.42	179	2292

* LIFFE futures also traded on APT

POUND SPOT FORWARD AGAINST THE POUND

May 21		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.4170	+0.088	094 - 246	16.4254	16.3253	16.3858	2.3	16.3108	2.6	-	-	104.7
Belgium	(BFr)	47.9508	+0.25	327 - 694	47.9695	47.7070	47.8458	2.8	47.6358	2.6	46.8158	2.8	105.5
Denmark	(DKr)	9.0072	+0.0484	028 - 115	9.0147	8.9538	8.9918	3.1	8.9589	2.1	8.8187	2.1	107.2
Finland	(FM)	7.1494	+0.026	420 - 567	7.1570	7.1130	7.145	0.7	7.1368	0.7	-	-	83.3
France	(FFr)	7.8956	+0.0431	922 - 990	7.9017	7.8581	7.8814	2.1	7.8830	2.1	7.7206	2.2	108.9
Germany	(DM)	2.3331	+0.0124	321 - 341	2.2357	2.3194	2.3281	2.5	2.3177	2.6	2.2673	2.8	107.6
Greece	(Dr)	368.640	+1.308	479 - 801	369.377	366.373	-	-	-	-	-	-	67.4
Ireland	(I£)	0.9693	+0.0002	884 - 701	0.9721	0.9680	0.9686	1.0	0.9672	0.9	0.9608	0.9	98.7
Italy	(L)	2357.88	+11.58	714 - 862	2358.73	2340.35	2365.13	-4.2	2381.23	-4.0	2438.68	-3.2	78.4
Luxembourg	(LFr)	47.9508	+0.25	321 - 694	47.9695	47.7070	47.8458	2.8	47.6358	2.6	46.7158	2.6	105.5
Netherlands	(Fl)	2.6087	+0.0156	077 - 097	2.6097	2.5927	2.6023	2.9	2.5896	2.9	2.5306	3.0	105.8
Norway	(NKr)	10.0038	+0.0463	967 - 110	10.0113	9.9597	9.9946	1.1	9.9758	1.1	9.8801	1.2	98.2
Portugal	(Es)	239.488	+1.045	343 - 630	239.655	237.810	239.591	-0.41	240.795	-2.2	-	-	95.3
Spain	(Pta)	194.181	+0.780	093 - 284	194.351	193.309	194.491	-1.9	194.966	-1.7	198.641	-1.3	81.3
Sweden	(SKr)	10.2803	+0.0289	738 - 868	10.2976	10.2078	10.2846	-0.1	10.2866	0.0	-	-	88.0
Switzerland	(SFr)	1.9184	+0.0089	163 - 174	1.9198	1.9057	1.9102	5.3	1.8974	4.0	1.8287	5.0	110.6
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	84.8
Ecu	-	1.2379	+0.0058	373 - 384	1.2386	1.2337	1.2356	1.3	1.2336	1.4	1.2205	1.4	-
SDR†	-	1.048900											
Americas													
Argentina	(Peso)	1.5125	+0.0014	112 - 137	1.5160	1.5103	-	-	-	-	-	-	-
Brazil	(R$)	1.5063	+0.0018	058 - 068	1.5086	1.5036	-	-	-	-	-	-	-
Canada	(C$)	2.0758	+0.0019	744 - 782	2.0804	2.0728	2.0746	0.4	2.0709	0.6	2.0629	0.6	84.1
Mexico	(New Peso)	11.1935	+0.0184	871 - 998	11.2275	11.1830	-	-	-	-	-	-	-
USA	($)	1.5136	+0.0014	132 - 139	1.5162	1.5105	1.5127	0.7	1.5113	0.6	1.5084	0.5	97.2
Pacific/Middle East/Africa													
Australia	(A$)	1.9088	+0.0052	076 - 099	1.9140	1.9027	1.9112	-1.6	1.9162	-1.6	1.9418	-1.7	83.7
Hong Kong	(HK$)	11.7081	+0.0104	046 - 116	11.7283	11.6856	11.7	0.8	11.6884	0.7	11.6658	0.3	-
India	(Rs)	52.8230	+0.2001	080 - 379	53.1380	52.5070	-	-	-	-	-	-	-
Israel	(Shk)	4.9521	-0.007	476 - 565	4.9681	4.9323	-	-	-	-	-	-	-
Japan	(Y)	162.041	+0.087	928 - 154	162.200	161.690	161.316	5.4	159.826	5.5	153.411	5.5	137.4
Malaysia	(M$)	3.7733	+0.0085	717 - 749	3.7784	3.7656	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2172	+0.0017	155 - 188	2.2222	2.2130	2.2222	-2.7	2.2317	-2.6	2.2855	-2.2	107.3
Philippines	(Peso)	39.5784	+0.0215	097 - 480	39.6500	39.5080	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.6766	+0.0053	750 - 780	5.6986	5.6663	-	-	-	-	-	-	-
Singapore	(S$)	2.1331	+0.0094	318 - 343	2.1355	2.1296	-	-	-	-	-	-	-
South Africa	(R)	6.5537	+0.0174	448 - 626	6.5691	6.5412	-	-	-	-	-	-	-
South Korea	(Won)	1180.64	-0.27	080 - 099	1182.64	1178.34	-	-	-	-	-	-	-
Taiwan	(T$)	41.3457	+0.0413	286 - 628	41.4110	41.2806	-	-	-	-	-	-	-
Thailand	(Bt)	38.3019	+0.0369	855 - 183	38.3450	38.2340	-	-	-	-	-	-	-

† Rates for May 20. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 21		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria	(Sch)	10.8467	+0.0482	442 - 492	10.8570	10.7730	10.779	2.2	10.737	2.5	10.5635	2.3	104.6
Belgium	(BFr)	31.6810	+0.138	760 - 860	31.7150	31.5030	31.49	2.1	31.373	2.2	30.633	2.2	106.3
Denmark	(DKr)	5.9510	+0.0265	495 - 525	5.9565	5.9150	5.917	1.5	5.8	1.7	5.831	1.6	106.5
Finland	(FM)	4.7236	+0.0128	196 - 276	4.7275	4.6920	4.7043	1.7	4.6923	1.6	4.6496	1.6	82.5
France	(FFr)	5.2165	+0.0236	180 - 170	5.2250	5.1910	5.186	1.8	5.1717	1.6	5.1099	1.7	108.4
Germany	(DM)	1.5415	+0.0068	412 - 418	1.5435	1.5300	1.5322	2.0	1.5264	2.2	1.4982	2.4	107.5
Greece	(Dr)	243.560	+0.54	810 - 910	244.380	242.150	244.285	-3.3	247.045	-5.7	261.58	-7.8	66.8
Ireland	(I£)	1.5615	+0.001	808 - 625	1.5641	1.5552	1.5611	-0.4	1.5619	-0.4	1.5534	0.5	-
Italy	(L)	1557.85	+6.22	770 - 800	1560.02	1550.30	1557.88	-7	1569.23	-4.5	1610.15	-3.9	78.0
Luxembourg	(LFr)	31.6810	+0.130	750 - 860	31.7150	31.5030	31.482	2.0	31.3655	2.0	30.905	2.0	106.3
Netherlands	(Fl)	1.7236	+0.0069	[illegible]	1.7250	1.7125	1.7213	2.3	1.7042	2.4	1.6724	2.6	108.4
Norway	(NKr)	6.6096	+0.0245	060 - 125	6.6125	6.5785	6.6021	0.5	6.5765	0.5	6.5401	0.7	97.4
Portugal	(Es)	158.215	+0.545	170 - 260	158.440	157.220	157.955	-3.4	158.575	-3.8	160.72	-1.9	94.6
Spain	(Pta)	128.295	+0.370	250 - 330	128.380	127.780	128.155	-2.8	128.565	-2.1	130.125	-1.7	80.9
Sweden	(SKr)	6.7941	+0.0491	885 - 997	6.8003	6.7414	6.7371	-0.2	6.7745	-0.1	6.8165	-0.8	88.9
Switzerland	(SFr)	1.2661	+0.0052	657 - 665	1.2695	1.2564	1.2592	3.4	1.2518	3.5	1.2183	3.5	110.1
UK	(£)	1.5136	+0.0014	132 - 139	1.5162	1.5105	1.5118	0.7	1.5099	0.8	1.505	0.5	84.1
Ecu	-	1.2226	-0.0045	221 - 230	1.2276	1.2206	1.2261	-0.7	1.2287	-0.8	1.2386	-0.9	-
SDR†	-	0.69400											
Americas													
Argentina	(Peso)	0.9993	-	997 - 999	0.9995	0.9987	-	-	-	-	-	-	-
Brazil	(R$)	0.9952	+0.0001	951 - 953	0.9963	0.9951	-	-	-	-	-	-	-
Canada	(C$)	1.3712	-0.0025	709 - 714	1.3726	1.3705	1.3735	0.1	1.3738	0.0	1.3788	-0.2	83.2
Mexico	(New Peso)	7.3955	-0.018	930 - 980	7.3995	7.3920	7.378	-28.1	7.81	-18.7	8.3245	-25.5	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	98.0
Pacific/Middle East/Africa													
Australia	(A$)	1.2609	+0.0022	608 - 614	1.2615	1.2604	1.2607	-1.8	1.2642	-1.7	1.2829	-1.8	95.3
Hong Kong	(HK$)	7.7355	-0.0005	350 - 360	7.7367	7.7350	7.7366	-0.1	7.7385	-0.1	7.7655	-0.4	-
India	(Rs)	34.9000	+0.1	000 - 000	35.1100	34.8900	34.95	-8.2	35.255	-8.2	36.725	-5.5	-
Israel	(Shk)	3.2718	-0.0077	698 - 740	3.2818	3.2510	-	-	-	-	-	-	-
Japan	(Y)	107.060	-0.055	010 - 110	107.130	106.660	106.67	5.0	105.77	5.0	102.03	4.7	137.6
Malaysia	(M$)	2.4930	+0.004	925 - 935	2.4960	2.4880	2.4889	-0.4	2.496	-1.1	2.5165	-1.2	-
New Zealand	(NZ$)	1.4648	-0.0002	641 - 656	1.4667	1.4640	1.4681	-2.6	1.4736	-2.4	1.4895	-2.5	-
Philippines	(Peso)	26.1500	-0.01	100 - 800	26.1900	26.1100	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	+0.0001	503 - 508	3.7506	3.7502	3.7508	-0.1	3.7516	-0.1	3.7549	-0.1	-
Singapore	(S$)	1.4093	+0.0003	088 - 098	1.4097	1.4087	1.4063	3.0	1.3996	2.7	1.374	2.5	-
South Africa	(R)	4.3300	+0.0075	260 - 340	4.3380	4.3200	4.3512	-6.0	4.4026	-7.4	4.626	-7.0	-
South Korea	(Won)	780.050	-0.8	000 - 100	780.300	780.000	-	-	-	-	-	-	-
Taiwan	(T$)	27.3170	+0.002	120 - 220	27.3340	27.3110	27.335	-0.9	27.375	-0.9	-	-	-
Thailand	(Bt)	25.3060	+0.001	010 - 110	25.3140	25.2950	25.4037	-4.7	25.5078	-4.8	26.48	-4.7	-

† SDR rate per $ for May 20. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 20: Base average 1990=100.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 21		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.78	16.47	4.865	2.021	4918	5.441	20.86	499.5	405.0	21.44	3.998	2.085	4.327	3.157	337.9	2.582
Denmark	(DKr)	53.24	10	8.765	2.590	1.076	2618	2.897	11.10	265.9	215.6	11.41	2.127	1.110	2.304	1.681	179.9	1.374
France	(FFr)	60.73	11.41	10	2.955	1.227	2987	3.305	12.67	303.4	246.0	13.02	2.427	1.267	2.628	1.918	205.2	1.568
Germany	(DM)	20.55	3.861	3.384	1	0.415	1011	1.118	4.288	102.7	83.24	4.406	0.821	0.429	0.889	0.649	69.44	0.531
Ireland	(I£)	49.48	9.295	8.146	2.408	1	2433	2.692	10.32	247.2	200.4	10.61	1.977	1.032	2.141	1.562	167.2	1.278
Italy	(L)	2.034	0.382	0.335	0.099	0.041	100.	0.111	0.424	10.16	8.236	0.436	0.081	0.042	0.088	0.064	6.870	0.053
Netherlands	(Fl)	18.38	3.452	3.026	0.894	0.371	903.8	1	3.833	91.80	74.43	3.940	0.734	0.383	0.795	0.580	62.09	0.475
Norway	(NKr)	47.95	9.007	7.895	2.333	0.969	2358	2.609	10	239.5	194.2	10.28	1.916	1.000	2.075	1.514	162.0	1.238
Portugal	(Es)	20.02	3.761	3.296	0.974	0.405	984.5	1.089	4.175	100.	81.09	4.292	0.800	0.418	0.866	0.632	67.64	0.517
Spain	(Pta)	24.69	4.638	4.065	1.201	0.499	1214	1.343	5.149	123.3	100.	5.294	0.987	0.515	1.068	0.780	83.42	0.637
Sweden	(SKr)	46.64	8.762	7.680	2.269	0.943	2294	2.538	9.728	233.0	188.9	10	1.864	0.973	2.018	1.473	157.6	1.204
Switzerland	(SFr)	25.03	4.701	4.121	1.218	0.506	1231	1.362	5.219	125.0	101.4	5.365	1	0.522	1.083	0.790	84.55	0.646
UK	(£)	47.95	9.007	7.895	2.333	0.969	2358	2.609	10.00	239.5	194.2	10.28	1.916	1	2.075	1.514	162.0	1.238
Canada	(C$)	23.11	4.341	3.805	1.124	0.467	1136	1.257	4.819	115.4	93.59	4.954	0.925	0.482	1	0.730	78.07	0.597
US	($)	31.67	5.949	5.215	1.541	0.640	1557	1.723	6.605	158.2	128.3	6.790	1.266	0.661	1.371	1	107.0	0.818
Japan	(Y)	29.60	5.560	4.873	1.440	0.598	1455	1.610	6.173	147.8	119.9	6.346	1.183	0.617	1.281	0.935	100.	0.764
Ecu		38.73	7.275	6.377	1.884	0.783	1905	2.107	8.078	193.5	156.9	8.304	1.548	0.808	1.676	1.223	130.9	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6522	0.6501	-0.0025	0.6538	0.6489	14,792	77,193
Sep	0.6552	0.6536	-0.0026	0.6565	0.6525	400	4,382
Dec	0.6573	0.6578	-0.0024	0.6605	0.6570	439	1,428

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7943	0.7913	-0.0026	0.7966	0.7894	10,365	42,703
Sep	0.7975	0.7975	-0.0028	0.8015	0.7962	797	3,095
Dec	-	0.8045	-0.0025	-	0.8040	20	765

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.9376	0.9379	+0.0004	0.9406	0.9369	16,988	68,125
Sep	0.9490	0.9493	+0.0003	0.9501	0.9487	817	[illegible]
Dec	-	0.9605	-	-	-	1,276	2,525

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.5132	1.5120	-0.0012	1.5148	1.5098	3,884	46,230
Sep	1.5080	1.5108	-0.0008	1.5122	1.5080	19	523
Dec	-	1.5090	-0.0008	1.5100	1.5080	1	37

UK INTEREST RATES

LONDON MONEY RATES

May 21	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6⅛ - 5	5⅞ - 5⅝	6⅛ - 5⅞	6⅛ - 6	6⅛ - 6⅛	6⅜ - 6¼
Sterling CDs	-	-	5⅞ - 5⅞	6 - 5⅞	6⅛ - 6	6⅜ - 6¼
Treasury Bills	-	-	5⅞ - 5¾	5⅞ - 5⅞	-	-
Bank Bills	-	-	5⅞ - 5¾	5⅞ - 5⅞	5⅞ - 5⅞	-
Local authority deps.	6⅛ - 5⅞	6 - 5⅞	6⅛ - 5⅞	6⅛ - 5⅞	6⅛ - 5⅞	6⅜ - 6⅛
Discount Market deps	6⅞ - 5⅞	5⅞ - 5⅞	-	-	-	-

UK clearing bank base lending rate 6 per cent from March 8, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4½

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on May 17, 5.8156pc. ECGD fixed rate Stg. *Export Finance. Make up day* Apr 30, 1996. Agreed rate for period May 26, 1996 to Jun 25, 1996, Schemes II & III 7.23pc. Reference rate for period Mar 30, 1996 to Apr 30, 1996, Schemes IV & V 6.079pc. Finance House Base Rate 6.5pc from May 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	93.91	93.91	-	93.93	93.90	8031	72315
Sep	93.81	93.82	-0.01	93.84	93.81	9581	57708
Dec	93.60	93.59	-0.02	93.63	93.57	10785	65740
Mar	93.27	93.28	-0.01	93.32	93.26	7024	47111
Jun	92.91	92.91	-	92.94	92.90	4001	37529

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9375	0.17	0.18	0.19	0.01	0.11	0.35
9400	0.02	0.06	0.10	0.11	0.24	0.51
9425	0	0.02	0.05	0.34	0.45	0.71

Est. vol. total, Calls 1937 Puts 3986. Previous day's open int., Calls 151153 Puts 123801

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Duncan Lawrie	6.00	Royal Bk of Scotland	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.00	●Singer & Friedlander	6.00
AIB Bank	6.00	Financial & Gen Bank	7.00	●Smith & Williamson Secs.	6.00
●Henry Ansbacher	6.00	●Robert Fleming & Co	6.00	TSB	6.00
Bank of Baroda	6.00	Girobank	6.00	United Bank of Kuwait	6.00
Banco Bilbao Vizcaya	6.00	●Guinness Mahon	6.00	Unity Trust Bank Plc	6.00
Bank of Cyprus	6.00	Habib Bank AG Zurich	6.00	Western Trust	6.00
Bank of Ireland	6.00	●Hambros Bank	6.00	Whiteaway Laidlaw	6.00
Bank of India	6.00	Heritable & Gen Inv Bk	6.00	Yorkshire Bank	6.00
Bank of Scotland	6.00	●Hill Samuel	6.00		
Barclays Bank	6.00	C. Hoare & Co	6.00	● Members of London Investment Banking Association	
Brit Bk of Mid East	6.00	Hongkong & Shanghai	6.00	* In administration	
●Brown Shipley & Co Ltd	6.00	Julian Hodge Bank	6.00		
Citibank NA	6.00	●Leopold Joseph & Sons	6.00		
Clydesdale Bank	6.00	Lloyds Bank	6.00		
The Co-operative Bank	6.00	Meghraj Bank Ltd	6.00		
Coutts & Co	6.00	Midland Bank	6.00		
Credit Lyonnais	6.00	●Mount Credit Corp	6.00		
Cyprus Popular Bank	6.00	NatWestminster	6.00		
		●Rea Brothers	6.00		

EMS EUROPEAN CURRENCY UNIT RATES

May 21	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Spain	162.493	159.305	-0.134	-1.96	3.42	14
Netherlands	2.15214	2.13838	+0.00057	-0.64	2.05	5
Belgium	39.3960	39.3296	+0.0178	-0.17	1.57	1
Germany	1.91007	1.91357	+0.0011	0.18	1.21	-2
Austria	13.4353	13.4651	+0.0086	0.20	1.19	-1
Portugal	195.792	196.347	-0.154	0.28	1.11	-2
Ireland	0.792214	0.795544	-0.002442	0.42	0.97	-3
France	6.40608	6.47683	+0.00376	1.10	0.29	-8
Denmark	7.28580	7.38738	+0.00552	1.39	0.00	-10
NON ERM MEMBERS						
Greece	292.867	302.598	-0.111	3.32	-1.87	-
Italy	2106.15	1933.13	+0.63	-8.21	10.47	-
UK	0.786652	0.820739	-0.002632	4.33	-2.82	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu: a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jun	Jul	Aug	PUTS Jun	Jul	Aug
1.490	2.34	2.54	2.92	0.06	0.37	0.82
1.500	1.52	1.86	2.32	0.24	0.66	1.18
1.510	0.86	1.28	1.78	0.57	1.05	1.60
1.520	0.41	0.82	1.31	1.12	1.60	2.15
1.530	0.14	0.49	0.93	1.85	2.26	2.72

Previous day's vol., Calls 10,152 Puts 5,698 . Prev. day's open int., Calls 189,523 Puts 178,759

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.51	94.50	-0.01	94.52	94.50	25,949	365,049
Sep	94.34	94.34	+0.01	94.35	94.33	27,053	358,787
Dec	94.05	94.06	-0.01	94.09	94.03	49,098	361,119

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.99	94.97	-0.01	94.99	94.97	169	9,335
Sep	94.81	94.83	-	94.84	94.81	106	5,340
Dec	-	94.63	+0.02	94.63	-	5	1,198

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jun	Jul	Aug	Sep	PUTS Jun	Jul	Aug	Sep
9650	0.25	0.29	0.30	0.32	0.01	0.02	0.03	0.05
9675	0.04	0.10	0.11	0.14	0.05	0.08	0.09	0.12
9700	0	0.01	0.02	0.03	0.21	0.25	0.26	0.27

Est. vol. total, Calls 6837 Puts 5965. Previous day's open int., Calls 358415 Puts 280096

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9800	0.02	0.10	0.11	0.18	0.29	0.51
9825	0	0.03	0.04	0.41	0.47	0.71

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 5960 Puts 3047

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9125	0.25	0.84	1.07	0.06	0.05	0.12
9150	0.09	0.60	0.81	0.15	0.09	0.13
9175	0.04	0.43	0.68	0.35	0.15	0.23

Est. vol. total, Calls 3600 Puts 400. Previous day's open int., Calls 39259 Puts 25251

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or −	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq		485xd	+1	588	476½	5,030	6.1	18.4
Bulmer (HP)		594	—	625	430	313.6	2.6	18.6
Burn St Dist		115	—	146	101	88.2	5.4	24.8
Glenmorangie A		630	—	680	600	88.7	2.2	17.8
Grand Met		445½	−1	467	374	9,348	4.3	18.7
Guinness		480xd	−4	538	435	9,244	3.9	15.7
Highland		373xd	−1	408	315	[illegible]	2.7	17.4
Kirin Y		[illegible]	[illegible]	[illegible]	621	[illegible]	0.7	32.3
Macallan-Glen		188	−2	217	150	197.2	1.1	34.5
For MacDonald Martin see Glenmorangie								
Matthew Clark		799	—	792	580	687.6	3.5	–
Merrydown		130	−1	148	68	14.2	1.9	–
Seagram S		[illegible]	[illegible]	[illegible]	£17⅞	6,421	1.2	–

BANKS, MERCHANT

	Notes	Price	+ or −	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Barings 8pc Cm 2nd Prf.		50½	—	50½	50½	[illegible]	19.8	–
Cater Allen		493	—	525	403	131.4	9.3	6.7
Close Bros		385	−3	392	271½	438.8	3.1	16.2
Gerrard & Nat		370	−3	472	370	180.9	7.8	11.9
Hambros		238	+1	282	180	417.7	4.0	–
7½pc Cv Pf		112	+1	117	94½	144.3	8.4	–
King & Shaxson		172	—	173	110	45.4	6.5	13.4
Leopold J		453	—	463	353	24.0	5.2	15.6
Rea Brothers		58	—	67	44	28.0	2.2	27.5
Schroders		1323	+23	1478	1099	1,997	1.5	18.4
N/V		[illegible]	+15	1180	890	459.9	1.9	14.6

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

Approved by the Inland Revenue

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Cont.

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

GUIDE TO LONDON SHARE SERVICE

s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. z Dividend yield includes a special payment

K Yield based on prospectus or other official estimates for 1996. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1995-96. N Dividend is paid in whole or part as a

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xt ex capital distribution.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Tyndall (Bermuda) Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

Sarasin Funds Mngmt (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

Arab Bank Fund Managers (Guernsey) Ltd

Atlantis Fund Management (Guernsey) Ltd

BZW Asset Management Guernsey Ltd

IRELAND (SIB RECOGNISED)

Henderson Crosthwaite Investment Co

LGT Asset Management Ltd

IRELAND (REGULATED)(**)

Credit Lyonnais Intl Asset Mgt (HK) Ltd

ISLE OF MAN (SIB RECOGNISED)

Ashburton Global Funds Ltd

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

INVESCO International Limited

LUXEMBOURG (SIB RECOGNISED)

Fidelity Funds - Contd.

Sarasin Investment SICAV (a)

LUXEMBOURG (REGULATED)(**)

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Credis Investment Funds - Contd.

Morgan Stanley Sicav

Murray Universal, Sicav

NICAM Asia Pacific Umbrella Fund

Nikko Bank (Luxembourg) S.A.

Nikko Capital Management

Nomura Asian Infrastructure Fd SICAV

Pacific Basin Growth Fund

Pan-Holding SA

Pictet Group

REIG Global Funds

River & Mercantile Latin American SICAV

Allied Dunbar International Assce Ltd

CMI Insurance Co Ltd

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

MANAGED FUNDS NOTES

LONDON STOCK EXCHANGE

MARKET REPORT

FT-SE 100 fails in attempt to penetrate 3,800

By Steve Thompson,
UK Stock Market Editor

Outstanding performances from a number of leading stocks, most notably the oil majors, Marks and Spencer, Bank of Scotland and Glaxo, helped to rescue the UK equity market yesterday.

Without the impetus of those stocks, London would have struggled to stay level yesterday, in spite of another strong performance by Wall Street overnight, where the Dow Jones Industrial Average raced higher.

The second line stocks featured three scintillating displays, from British Biotech, Inchcape and British Borneo. But dealers maintained that the market was lacking real upside support and needed another sizeable takeover bid to continue its upward progress.

The FT-SE 100 index took a hard look at the 3,800 level very early in the session, but just failed to attract the crucial level of support needed to propel the index above it.

At the close the Footsie had achieved an 11.2 rise at 3,789.4, recouping almost all of Monday's decline, but the day's performance was still viewed as unconvincing by a number of traders.

They were equally scathing about the performance of the Mid 350 index, which closed 6.9 higher at 4,529.2, in a move that owed much to British Biotech, arguably the day's outstanding individual stock.

"Without the drive provided by Marks and Spencer, which helped the rest of the retail sector, and the US support for oil stocks, it would have been a very tough day for London," said a senior marketmaker.

The 7 per cent gain from Marks and Spencer was worth 5 points on the index, while the rises in BP and Shell were worth 5.2 Footsie points. Allowing for Enterprise Oil and Lasmo, the leading index owed all of its gains to M&S and oils.

There was no real support for London from yesterday's performance on Wall Street, which lacked a decided trend during the afternoon, as the Federal Reserve Open Market Committee meeting got under way. Dealers said they expected no immediate move in US interest rates but were looking for indications of the direction of the next shift in rates. The Dow was up some 8 points well after London closed for business.

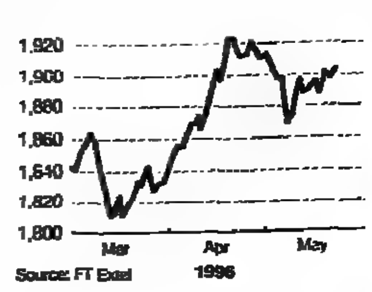
A bullish report on its Marimastat anti-cancer drug from British Biotech, the leading UK biotech stock, saw the company's shares post an early gain of nearly 20 per cent, before they turned down and eventually settled around 10 per cent higher on the day.

Marks and Spencer, meanwhile, provided excellent news from the high street, achieving preliminary results at the top of the range of analysts' forecasts, which helped lift the rest of the retail sector.

Marketmakers, increasingly nervous about the potential for rights issues, said the short-term outlook depended on Wall Street and the Footsie's ability to penetrate 3,800. "If the street performs well and we get through Footsie 3,800, then 3,900 could be on the cards," was the view of one senior trader.

Turnover in equities at 6pm was a lowly 693.2m shares, with non-Footsie stocks accounting for 58 per cent of that figure. Customer trading on *Monday* was worth £1.85bn.

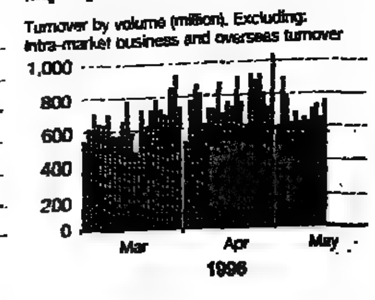
FT-SE-A All-Share index



Source: FT Extel

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3789.4	+11.2
FT-SE Mid 250	4529.2	+6.9
FT-SE-A 350	1918.4	+5.0
FT-SE-A All-Share	1903.36	+4.89
FT-SE-A All-Share yield	3.75	3.76

FT Ordinary index	2815.3	+4.3
FT-SE-A Non Fins p/e	17.12	17.09
FT-SE 100 Fut Jun	3788.0	+8.0
10 yr Gilt yield	8.02	7.97
Long gilt/equity yld ratio:	2.14	2.12

Best performing sectors

1 Oil Exploration .... +2.0
2 Retailers: General .... +1.9
3 Distributors .... +1.4
4 Pharmaceuticals .... +1.4
5 Oil: Integrated .... +1.3

Worst performing sectors

1 Water .... –1.2
2 Extactive Inds .... –1.2
3 Electricity .... –0.8
4 Chemicals .... –0.8
5 Insurance .... –0.7

BA takes off to new high

Transport leaders British Airways and BAA spun in opposing directions. BA soared to a new all-time high, but BAA, *hit by regulation fears*, crashed to bottom place in the Footsie rankings.

BA shot forward as analysts surfaced from a long session of number *crunching* to put a positive gloss on the 1996 results. Volume growth remains strong and, with costs in check and load factors improving, a number of profit estimates were tweaked higher.

UBS and BZW both upgraded forecasts for this year and next, and NatWest Securities *put out an "add" note. The* shares closed 13 higher at 588p in 8.4m traded.

In contrast, BAA moved sharply lower in the second heaviest turnover of the year, following calls for wider airport ownership from a parliamentary review.

The spectre of unfavourable regulation comes at a time when BAA is already under attack for its latest diversification into direct retailing. The shares tumbled 17 to 507p in 11m traded.

Some brokers saw the shakeout as a buying opportunity and there were clear signs of a two-way pull yesterday. BAA touched 502p at one stage.

Leading oil stocks gained ground after Iraq and the UN signed a long awaited agreement to allow Iraq to sell $2bn of oil over a 180-day period to pay for humanitarian needs.

While the move is expected to depress crude oil prices, uncertainty about the issue has forced down oil company shares over the past few weeks and yesterday's sector gains – following buying in the US on Monday night – represented what one analyst described as "a sigh of relief that this *issue is finally over". There* were also some big short positions in the market.

BP was further helped by a change of heart from NatWest Securities, which changed its recommendation on the company from "hold" to "buy". The shares gained 9 to 578½p, while Shell Transport improved 10½ to 937p and Enterprise 12 to 472p.

However, SGST was bemused by the share price strength and commented: "To assume [the effect of the UN *agreement] is all in the price* and now we know the worst seems illogical and irrational." The broker advised clients to pocket profits.

Marks and Spencer, the UK's largest clothing retailer, reached an all-time high, up 29½ to 462p, after pleasing the market with annual results which were at the very top end of forecasts.

The retailer, a weathervane for the industry, had underperformed the sector and the market since late 1994.

Uncertainty over clothing sales was diminished, with analysts – also heartened by Next's agm statement last week – responding well to the *chairman alluding to positive* current trading.

UBS, which welcomed the turnaround in the group's US activities, put the stock back on its "buy" list and upgraded its forecast by £75m to £1.125bn, while ABN Amro Hoare Govett said it was looking for £1.13bn rather than £1.07bn.

Beneficiaries included Storehouse, up one penny at 333p, and Kingfisher, ahead 14 at 608p in trade of 2m shares. Next rose 3 to 549p. Dixons, *which has benefited from* reports of rising sales of personal computers in the UK, firmed 3 to 496p.

British Biotech *jumped* 750p in early trading after the company announced positive results from Phase II trials of its marimastat cancer drug, and said it would shortly begin definitive clinical trials.

But many analysts remained sceptical about the valuation of the stock. One commented: "If you relate it to the US drug sector, you are looking at a very overvalued situation".

By the close, the shares had lost some of their puff but still ended 285 higher at 3315p.

The rest of the biotechnology sector was dragged along in British Biotech's wake. Chiroscience was marked up by 40 at one stage, but finished 15 lower on balance at 505p. Shire rose 20 to 221p.

Inchcape, a volatile performer since last year's profit *warnings, surged almost* 6 per cent after an upbeat annual meeting statement and reiterated buy advice from Merrill Lynch. The stock closed 16 better at 288p, against a 52-week high of 360¼p.

Among building materials stocks, Blue Circle eased a penny to 361p ahead of today's annual meeting. A badly handled trade was said to be the main reason for an 8 slide to 230p in Caradon, the day's FT-SE Mid 250 backmarker.

British Steel was the second worst performing Footsie stock, shedding 5 to 176p in solid volume of 4.5m shares. There was said to be US sellers around, and SBC Warburg reiterated its sell stance.

Food manufacturer Unigate came under pressure, as the UK government moved to raise the stakes in the beef dispute. The shares fell 9 to 415p.

With a large part of the group's trading profits derived *from the sale of dairy products,* dealers suggested concerns surrounding the stock were two-fold. Those fearing a big cattle cull is still on the cards suggested such a move would soon hit milk production.

Others pointed to the continued downturn in sales of UK dairy products in countries such as France and Germany which could dent Unigate's earnings in such markets.

Unilever appreciated 10 to 1228p. The company said it had agreed to buy Finepat, which *holds a 50.1 per cent stake in* Biopat, a French manufacturer of frozen bakery products.

Profits warnings floored two smaller electronics stocks. Bulgin "A" fell 6 to 17p after indicating lower first-half earnings, and a cautious statement from Neotronics sent the shares down 18 to 50p.

Footweariness continued in the footwear industry as another company warned about future profits. Following last week's grim forecast from Chamberlain Phipps, FII Group said it would make an operating loss of around £1m for the year before costs. The shares tumbled 185p to 283p.

Encouraging revenue and *advertising figures from the* industry saw Capital Radio, the principal pure radio play in the sector, rise 12 to 733p.

Southern Electric fell 19½ to 760½p in a friendless sector, with some dealers pinning the blame on Credit Lyonnais Laing.

Laing denied it had said anything at all. But one sector specialist pointed out that, on a yield of 6 per cent against a sector yield of 6.6 per cent and with National Power's 8 per cent stake overhanging the share price, Southern looked expensive.

Public houses group Enterprise Inns jumped 14 to 197p after it announced a deal to acquire John Labatt (JLR) from Interbrew.

The purchase virtually dou*bles the size of Enterprise in a* single swoop and is to be partly funded through a one-for-six rights issue at 153p a share. The company also reported improved interim profits.

MARKET REPORTERS:
Peter John, Joel Kibazo,
Jeffrey Brown, Lisa Wood.

FINANCIAL TIMES EQUITY INDICES

	May 21	May 20	May 17	May 16	May 15	Yr ago	*High	*Low
Ordinary Share	2815.3	2811.0	2816.8	2792.6	2812.8	2490.0	2865.2	2698.7
Ord. div. yield	3.92	3.94	3.93	3.98	3.95	4.27	4.06	3.76
P/E ratio net	16.64	16.60	16.62	16.49	16.56	16.03	17.26	15.96
P/E ratio nil	16.41	16.37	16.39	16.26	16.33	15.73	17.08	15.76

Ordinary Share index since compilation: high 2865.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2822.3	2817.2	2816.9	2813.6	2817.1	2818.3	2817.4	2814.6	2815.7	2823.3	2812.1

	May 21	May 20	May 17	May 16	May 15	Yr ago
SEAQ bargains	35,254	42,502	34,587	31,971	33,480	23,909
Equity turnover (£m)†	–	1590.6	2363.7	1903.4	1950.1	1283.2
Equity bargains†	–	52,876	41,162	38,418	40,032	34,060
Shares traded (mil)†	–	885.3	770.5	630.4	718.6	594.5

†Excluding intra-market business and overseas turnover.

	May 21	May 20	May 17	May 16	May 15	Yr ago	*High	*Low
FT-SE AIM	1089.30	1086.50	1084.50	1075.60	1072.10	–	1094.50	965.68

*For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	829	Total Highs	191	Total contracts	29,555
Total Falls	617	Total Lows	22	Calls	11,712
Same	1500			Puts	17,843

May 21 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	800.0	3788.0	+8.0	3801.0	3782.5	7175	55088
Sep	3800.0	3797.5	+8.0	3801.5	3795.0	216	7446
Dec	3835.0	3827.0	+8.0	3835.0	3827.0	86	485

FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		4540.0	+10.0			0	4141

FT-SE 100 INDEX OPTION (LIFFE) (*3788) £10 per full index point

	3600 C	3600 P	3650 C	3650 P	3700 C	3700 P	3750 C	3750 P	3800 C	3800 P	3850 C	3850 P	3900 C	3900 P	3950 C	3950 P
Jun	195½	6½	151½	10	110	18½	70	32½	40	53	20½	84	8	125	2	172
Jul	206½	15	165	24	128	36½	95	54½	64½	74	40½	101	24½	136	13½	175
Aug	223	30	185	42	149½	55	117½	73½	88½	94½	62½	120	42½	151½	28½	187½
Sep	238	46	200	56½	165½	72½	133½	89	105	111	80½	136	59	166	42	199½
Dec†	287	74½			223½	105½			184½	146½			117	198½		

Calls 1,392 Puts 4,087

EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3625 C	3625 P	3675 C	3675 P	3725 C	3725 P	3775 C	3775 P	3825 C	3825 P	3875 C	3875 P	3925 C	3925 P	3975 C	3975 P
Jun	171½	9½	127½	15	87	24½	54	41	28½	65½	13½	100	5½	141½	2	188
Jul	184½	19½	145	29	109	42½	78	61	52½	85	32½	114½	18½	150	10	191
Aug	201	33½	169½	45	129½	59½	97½	77½	70½	100	48	127	31	159	18	195½
Sep	217½	48½			148	77			94	121			59½	160		
Dec†	274½	79½			212½	114			166	164			108½	203		

Calls 1,354 Puts 6,230 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	21.2	138	115	†Active Imaging	116		-	-	-	-
-	F.P.	44.2	101	101	ADM Trust	101		-	-	-	-
-	F.P.	197.1	745	681½	Atlantis Japan	685½	+1	-	-	-	-
-	F.P.	-	175	125	Bloomsbury Unit	135	-3	-	-	-	-
105	F.P.	12.8	124	118	†CA Coutts	120		-	-	-	-
-	F.P.	13.2	1050	850	Camgorm Unts	[illegible]		-	-	-	-
100	F.P.	6.40	95	93	Capital Co's VCT	94		-	-	-	-
-	F.P.	32.3	38	36	†Emech	38		-	-	-	-
-	F.P.	7.84	-	39	†FNR	39		-	-	-	-
-	F.P.	23.5	97½	84	Gartmore Select	84		-	-	-	-
-	F.P.	1.51	66	60	†Harcules Prop	60		-	-	-	-
-	F.P.	29.3	101	90	INVESCO E & I C	[illegible]		-	-	-	-
-	F.P.	5.67	-	3¼	†Just Group	[illegible]		-	-	-	-
180	F.P.	52.3	192	155	†La Senza	[illegible]		-	-	-	-
-	F.P.	35.3	273	223	Lumnar	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
-	F.P.	[illegible]	250	223	MSB Intl	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
-	F.P.	105	278	220	Madden Group	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
278	F.P.	490.3	339	278	Mal & Cosmome	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
-	F.P.	9.33	143	136	Premiere Group	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
190	F.P.	2,102	229	205	Railtrack	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
-	F.P.	45.5	67	43	†Reflec	[illegible]		-	-	-	-
-	F.P.	6.55	95	75	†Stentor	[illegible]		-	-	-	-
-	F.P.	-	97	95	Taiwan Inv Tst C	[illegible]		-	-	-	-
-	F.P.	18.0	11	7¼	†Thomas Potts	[illegible]		-	-	-	-
-	F.P.	2.59	49	43	†Tom Hoskins	[illegible]		-	-	-	-
450	F.P.	153.1	633	556	Vanguard Medica	[illegible]		-	-	-	-
45	F.P.	12.3	57	50	†Waterlad	[illegible]		-	-	-	-

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	May 20	% chg on day	May 17	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	2231.78	–1.1	2257.40	1840.09	1.33	–	2520.73	1722.93
Regional Indices								
Africa (13)	3162.19	–1.1	3197.32	2454.58	2.31	43.85	3583.86	2272.74
Australasia (6)	2573.88	–1.1	2604.34	2144.71	2.55	28.76	2927.34	2098.51
North America (12)	2060.72	–1.1	2082.30	1624.30	0.86	72.46	2186.39	1488.94

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FT - SE Actuaries Share Indices — The UK Series

	May 21	Day's chge%	May 20	May 17	May 16	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3789.4	+0.3	3778.2	3789.6	3753.6	3291.8	3.87	2.14	14.72	75.87	1545.56
FT-SE Mid 250	4529.2	+0.2	4522.3	4513.4	4493.8	3805.7	3.32	1.75	21.51	80.59	1814.27
FT-SE Mid 250 ex Inv Trusts	4568.0	+0.1	4561.4	4552.9	4532.1	3809.1	3.42	1.80	20.28	85.65	1832.89
FT-SE-A 350	1918.4	+0.3	1913.4	1917.0	1901.0	1635.0	3.83	2.06	15.85	37.46	1599.44
FT-SE-A 350 Higher Yield	1839.7		1838.9	1841.9	1824.6	1652.5	5.09	1.91	12.87	45.32	1282.00
FT-SE-A 350 Lower Yield	2004.6	+0.5	1995.2	1999.6	1984.8	1616.9	2.68	2.33	20.05	29.89	1385.39
FT-SE SmallCap	2241.87	+0.1	2240.04	2239.64	2237.35	1950.18	2.90	1.78	24.28	25.63	1834.69
FT-SE SmallCap ex Inv Trusts	2238.91	+0.1	2237.36	2237.66	2235.40	1827.85	3.06	1.87	21.89	26.86	1843.28
FT-SE-A ALL-SHARE	1903.36	+0.3	1898.47	1901.77	1886.99	1617.67	3.75	2.04	16.29	35.92	1611.44

FT-SE Actuaries All-Share

	May 21	Day's chge%	May 20	May 17	May 16	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3551.02	+1.0	3516.80	3545.23	3519.73	2872.90	3.77	1.83	18.09	78.92	1529.84
12 Extractive Industries(6)	4524.49	–1.2	4561.13	4647.88	4627.59	3815.68	3.57	2.50	14.01	109.19	1331.41
15 Oil, Integrated(3)	3563.03	+1.3	3536.55	3557.17	3526.94	2870.78	3.99	1.72	18.15	81.84	1583.31
16 Oil Exploration & Prod(15)	2515.66	+2.0	2465.99	2508.03	2507.15	2071.79	2.08	1.80	37.47	32.06	1513.38
20 GEN INDUSTRIALS(275)	2123.16	–0.1	2125.97	2127.13	2123.33	1952.51	3.99	1.91	16.44	35.20	1159.32
21 Building & Construction(34)	1223.51		1223.95	1224.14	1222.10	986.59	3.37	1.79	20.71	19.09	1024.82
22 Building Matls & Merchs(29)	1951.02	–0.4	1958.41	1962.40	1957.85	1830.37	3.89	1.75	18.42	38.36	986.83
23 Chemicals(25)	2536.16	–0.8	2556.09	2556.40	2550.68	2388.11	3.90	1.94	16.53	48.01	1203.61
24 Diversified Industrials(19)	1740.59	+0.1	1739.15	1739.08	1748.36	1878.33	5.93	1.72	12.24	44.82	975.89
25 Electronic & Elect Equip(37)	2456.11	+0.2	2451.15	2438.87	2429.42	2027.64	2.98	1.67	25.03	14.16	1257.58
26 Engineering(71)	2459.59	–0.1	2463.20	2467.79	2461.81	1943.82	3.11	2.49	16.12	28.93	1490.08
27 Engineering, Vehicles(13)	3053.03	+0.1	3049.72	3055.54	3025.45	2291.74	3.49	1.89	18.99	49.11	1583.16
28 Paper, Pckg & Printing(26)	2782.55	+0.1	2780.32	2780.89	2761.49	2974.04	3.86	2.03	16.81	41.82	1158.85
29 Textiles & Apparel(19)	1391.01	–0.3	1395.32	1402.55	1402.82	1638.97	5.06	1.54	16.03	32.82	852.86
30 CONSUMER GOODS(80)	3579.82	+0.7	3556.52	3555.51	3531.81	3057.16	3.92	1.85	17.20	78.45	1328.53
32 Alcoholic Beverages(9)	2852.44	–0.4	2862.60	2876.57	2866.57	2707.70	4.39	1.62	17.61	71.72	1035.35
33 Food Producers(23)	2467.23	+0.4	2456.48	2464.77	2469.78	2434.99	4.20	1.84	16.21	57.54	1119.52
34 Household Goods(15)	2668.66	–0.3	2676.29	2676.24	2680.42	2586.97	3.72	2.41	13.94	53.70	1023.00
36 Health Care(20)	2105.52	+0.2	2100.99	2091.39	2086.75	1751.66	2.53	1.87	26.42	27.65	1281.77
37 Pharmaceuticals(12)	5147.88	+1.4	5078.53	5078.43	5029.91	3784.31	3.31	1.88	20.14	91.18	1751.66
38 Tobacco(1)	4320.15	+0.2	4311.68	4248.15	4163.44	4171.27	5.88	2.00	10.64	156.18	1085.19
40 SERVICES(258)	2539.11	+0.5	2525.63	2526.16	2513.12	1999.85	2.80	2.03	21.96	37.30	1321.63
41 Distributors(32)	2975.53	+1.4	2935.40	2922.80	2914.57	2552.94	2.83	1.77	24.97	36.69	1097.61
42 Leisure & Hotels(32)	3202.85	+0.4	3190.81	3194.83	3182.86	2307.37	2.75	1.96	23.27	141.77	1724.83
43 Media(46)	4273.88	+0.1	4269.26	4260.58	4239.31	2958.81	2.08	1.85	30.81	47.92	1548.41
44 Retailers, Food(15)	1986.78	–0.2	1990.69	2002.70	1999.86	1917.30	3.82	2.33	14.06	36.91	1267.66
45 Retailers, General(43)	2089.72	+1.9	2051.38	2046.45	2034.44	1636.08	2.96	2.15	19.71	22.12	1191.28
47 Breweries, Pubs & Rest.(24)	3116.81	+0.2	3112.07	3126.22	3116.36	2330.07	3.22	2.09	18.56	31.74	1493.86
48 Support Services(49)	2413.05	+0.5	2402.21	2393.33	2377.75	1800.16	1.90	2.46	26.79	24.03	1534.94
49 Transport(21)	2440.67	–0.4	2450.38	2464.84	2436.23	2289.04	3.61	1.50	23.09	28.66	1014.38
60 UTILITIES(33)	2378.81	–0.4	2387.58	2380.19	2346.30	2355.30	5.43	2.03	11.31	46.63	1008.98
62 Electricity(12)	2725.48	–0.8	2749.79	2778.37	2733.58	2228.40	5.70	2.37	9.23	137.11	1312.33
64 Gas Distribution(2)	1213.98		1213.98	1201.18	1181.98	1959.24	9.87	1.36	9.33	64.58	835.65
66 Telecommunications(7)	2032.58	+0.1	2030.04	2007.80	1973.55	2062.23	4.26	1.82	16.11	0.15	920.07
68 Water(12)	2036.34	–1.2	2061.92	2064.01	2082.15	1898.53	6.00	2.59	8.06	3.81	1104.29
69 NON-FINANCIALS(665)	2022.71	+0.3	2015.90	2017.30	2005.01	1739.10	3.77	1.94	17.12	36.81	1536.03
70 FINANCIALS(105)	2950.81	–0.1	2954.00	2976.13	2926.30	2370.49	4.04	2.62	11.80	71.77	1277.49
71 Banks, Retail(8)	4023.20	+0.1	4020.92	4063.55	3971.51	3179.11	3.87	2.89	11.18	110.04	1324.91
72 Banks, Merchant(6)	3607.55	+1.0	3572.01	3553.93	3535.28	3301.19	2.73	2.38	19.23	36.38	1142.81
73 Insurance(23)	1551.81	–0.7	1582.13	1570.82	1536.77	1321.42	5.09	3.11	7.90	47.23	1175.87
74 Life Assurance(6)	3539.97	–0.3	3551.81	3579.84	3579.71	2647.23	4.22	2.24	13.20	100.72	1483.98
77 Other Financial(21)	2754.29	+0.1	2750.49	2739.13	2713.56	2025.71	3.75	1.72	19.41	29.60	1562.33
79 Property(41)	1559.65	–0.5	1568.16	1572.28	1571.14	1399.30	4.05	1.32	23.41	13.94	954.78
80 INVESTMENT TRUSTS(126)	3259.86	+0.2	3252.70	3245.46	3237.83	2781.88	2.12	1.08	55.38	25.73	1137.38
89 FT-SE-A ALL-SHARE(896)	1903.36	+0.3	1898.47	1901.77	1886.99	1617.67	3.75	2.04	16.29	35.92	1611.44
FT-SE-A Fledgling	1265.08	+0.2	1261.85	1259.89	1257.73	1001.77	2.71	2.20	21.01	13.04	1321.50
FT-SE-A Fledgling ex Inv Trusts	1275.11	+0.2	1272.16	1270.09	1267.79	995.55	2.92	2.37	18.05	14.18	1332.21

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3795.6	3786.5	3789.8	3783.7	3788.3	3790.0	3788.7	3786.8	3788.6	3795.7	3782.0
FT-SE Mid 250	4535.2	4534.2	4534.8	4531.2	4535.8	4535.4	4534.8	4532.1	4530.9	4536.1	4529.2
FT-SE-A 350	1921.4	1917.8	1918.1	1916.4	1918.6	1919.2	1918.7	1917.7	1918.3	1921.5	1915.7

Time of FT-SE 100 Day's high: 8:31 AM Day's low: 10:38 AM. FT-SE 100 1996 High: 3857.1 (19/04/96) Low: 3634.2 (23/01/96).

FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrn	1205.0	1203.0	1203.0	1203.2	1202.9	1203.3	1203.2	1202.7	1202.3	1202.3	1203.7	–1.4
Pharmaceuticals	5058.0	5047.0	5044.3	5034.5	5038.6	5049.9	5048.6	5061.3	5067.9	5071.6	5002.1	+69.5
Water	2050.4	2048.7	2048.5	2035.0	2035.5	2035.5	2033.6	2033.0	2029.0	2026.1	2052.5	–26.4
Banks, Retail	4093.0	4080.9	4067.4	4064.2	4077.2	4075.8	4073.5	4075.1	4068.5	4073.0	4072.2	+0.8

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues.

 † Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative. NAME CHANGE: Walker (J.O.) now Springwood (Fledgling).

TRADING VOLUME

Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i	86	470	
ASDA Group†	16,300	119½	+1
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 Index constituent. All values are rounded. Source: FT Extel.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 21 / Sch)

BELGIUM/LUXEMBOURG (May 21 / Frs.)

CZECH REP (May 21 / Koruna)

DENMARK (May 21 / Kr)

FINLAND (May 21 / Mka)

FRANCE (May 21 / Frs.)

GERMANY (May 21 / Dm.)

GREECE (May 21 / Drachma)

ITALY (May 21 / Lira)

NETHERLANDS (May 21 / Fls.)

NORWAY (May 21 / Kroner)

POLAND (May 21 / Zloty)

PORTUGAL (May 21 / Escudo)

SPAIN (May 21 / Pta.)

SWEDEN (May 21 / Kronor)

SWITZERLAND (May 21 / Frs.)

TURKEY (May 21 / TL Lira)

PACIFIC

JAPAN (May 21 / Yen)

AUSTRALIA (May 21 / Aus$)

HONG KONG (May 21 / H.K.$)

INDONESIA (May 21 / Rupiah)

MALAYSIA (May 21 / MYR)

NEW ZEALAND (May 21 / NZ $)

SINGAPORE (May 21 / S$)

SOUTH KOREA (May 21 / Won)

TAIWAN (May 21 / TW $)

THAILAND (May 21 / Baht)

AFRICA

SOUTH AFRICA (May 21 / Rand)

NORTH AMERICA

CANADA

TORONTO (May 21 / Can $)

4 pm close

MONTREAL (May 21 / Can $)

4 pm close

INDICES

	May 21	May 20	May 17	1996 High	1996 Low
Argentina					
General(29/12/77)	(u)	18881.95	18884.56	18881.95 20/5	15928.81 19/3
Australia					
All Ordinaries(1/1/80)	2242.9	2251.2	2251.6	2328.00 26/4	2167.40 11/3
All Mining(1/1/80)	1057.6	1073.0	1079.7	1118.49 8/5	1004.70 16/1
Austria					
Credit Aktien(30/12/84)	390.14	387.36	380.65	390.14 21/5	352.78 2/1
Traded Index(2/1/91)	1131.28	1122.86	1109.86	1131.28 21/5	975.27 2/1
Belgium					
BEL20(1/1/91)	1761.39	1741.02	1725.44	1761.39 21/5	1574.99 2/1
Brazil					
Bovespa(29/12/83)	(c)	55557.0	55604.0	55557.00 20/5	43801.00 2/1
Canada					
Metals Minls♦(1975)	(u)	(c)	5466.61	5824.60 8/5	4687.47 16/1
Composite♦(1975)	(u)	(c)	5220.50	5208.60 14/5	4739.78 15/1
Portfolio§§(4/1/83)	(u)	(c)	2545.40	2545.60 14/5	2227.38 12/1
Chile					
IGPA Gen♥(31/12/80)	(c)	5559.69	5544.02	5904.33 8/1	5216.28 8/4
Denmark					
CopenhagenSE(3/1/83)	403.05	402.97	400.27	403.05 21/5	368.40 2/1
Finland					
HEX General(28/12/90)	2017.29	2025.34	1997.95	2025.34 20/5	1651.67 10/1
France					
SBF 250(31/12/90)	1451.51	1444.42	1451.06	1453.88 30/4	1250.16 2/1
CAC 40(31/12/87)	2129.71	2120.59	2136.91	2148.79 30/4	1897.85 11/1
Germany					
FAZ Aktien(31/12/58)	901.99	900.43	891.89	902.33 23/4	818.59 2/1
Commerzbank(1/12/53)	2593.80	2590.10	2569.80	2601.90 23/4	2378.29 2/1
DAX‡(30/12/87)	2570.78	2550.00	2537.33	2570.78 21/5	2284.86 2/1
Greece					
Athens SE(31/12/80)	917.47	922.36	920.98	1017.96 4/3	881.83 29/4
Hong Kong					
Hang Seng(31/7/64)	11088.77	10987.59	10816.85	11594.99 18/2	10204.87 2/1
India					
BSE Sens.(1979)	3671.95	3694.29	3795.98	3869.87 24/4	2826.88 25/1
Indonesia					
Jakarta Comp.(10/8/82)	617.29	617.89	621.39	630.21 24/4	512.48 2/1
Ireland					
ISEQ Overall(4/1/88)	2547.29	2539.00	2525.00	2547.29 21/5	2234.81 2/1
Italy					
Banca Comm Ital(1972)	669.53	674.10	667.30	674.10 20/5	572.21 23/3
MIB General(2/1/95)	1134.0	1142.0	1131.0	1142.00 20/5	979.99 27/3
Japan					
Nikkei 225(16/5/49)	22091.74	21979.00	21916.60	22262.65 24/4	19734.70 13/3
Nikkei 300(1/10/82)	312.23	311.97	311.18	318.06 26/4	284.48 11/3
Topix(4/1/68)	1689.30	1689.04	1684.33	1718.00 26/4	1524.12 13/3
2nd Section(4/1/68)	2236.78	2236.60	2235.82	2243.28 2/5	1982.78 14/3
Malaysia					
KLSE Comp.(4/4/86)	1146.08	(c)	1155.55	1189.54 30/4	993.18 2/1
Mexico					
IPC(Nov 1978)	(c)	3316.21	3259.37	3316.21 20/5	2736.38 8/3
Netherland					
CBS TtlRtnGen(End 83)	638.1	634.0	629.5	638.10 21/5	539.50 2/1
CBS All Shr(End 83)	378.9	376.5	373.8	378.90 21/5	326.70 2/1
New Zealand					
Cap. 40(1/7/86)	2087.2	2080.52	2086.03	2203.08 4/1	2044.71 24/1
Norway					
Oslo SE(Ind)(2/1/83)	1417.91	1408.09	(c)	1444.72 29/4	1259.68 30/1
Philippines					
Manila Comp(2/1/85)	3126.97	3111.35	3116.69	3129.08 9/5	2578.87 2/1
Portugal					
BVL 30(4/1/93)	1885.44	1868.85	1848.18	1885.44 21/5	1602.81 2/1
Singapore					
SES All-S'pore(2/4/75)	573.12	573.35	575.40	610.37 5/2	553.89 2/1
South Africa					
JSE Gold(28/9/78)	1949.3♥	2000.1	2028.9	2028.90 17/5	1345.40 2/1
JSE Ind.(28/9/78)	7740.2♥	7723.2	7821.7	8739.30 25/1	7723.90 20/5
South Korea					
KoreaCmpEx**(4/1/80)	919.86	935.07	937.51	986.84 7/5	838.87 13/3
Spain					
Madrid SE(30/12/85)	363.95	362.96	360.37	363.95 21/5	323.76 11/1
Sweden					
AffarsvardsGen(1/2/37)	1998.5	2005.5	1983.1	2005.50 20/5	1706.60 22/1
Switzerland					
Swiss Bk Ind(31/12/58)	1741.41	1740.93	1738.27	1779.54 26/4	1516.19 17/1
SBC General(1/4/87)	1228.52	1225.86	1229.92	1259.89 26/4	1114.47 26/1
Taiwan					
WeightedPr.**(30/6/66)	5729.48	5774.89	6022.72	6182.79 29/4	4690.22 6/2
Thailand					
Bangkok SET(30/4/75)	1290.59	1289.23	1300.20	1415.04 6/2	1247.79 13/3
Turkey					
Istanbul Cmp.(Jan 1986)	66224.6	66647.5	65745.1	72086.80 3/4	38779.30 2/1
WORLD					
MS Capital Intl(1/1/70)	780.6*	779.3	778.2	780.60 21/5	725.90 15/1
CROSS-BORDER					
Eurotrack 100(26/10/90)	1696.84	1690.84	1680.34	1696.84 21/5	1504.40 11/1
Euro Top-100(26/6/90)	1455.23	1453.31	1450.40	1458.28 26/4	1333.01 11/1
HSBC JC Drgn(31/12/88)	(u)	376.09	375.19	383.16 16/4	344.19 2/1
ING Brngs Emrg(7/1/92)	162.24	162.08	162.53	164.14 14/5	147.25 2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
■ CAC-40 (200 x index)							
May	2118.0	2123.0	+11.0	2124.0	2121.0	455	32,796
Jun	2096.5	2102.5	+11.0	2102.5	2101.5	202	31,188
■ DAX							
Jun	2548.0	2568.5	+20.5	2574.0	2547.5	22,571	-
Sep	2570.0	2584.5	+19.0	2588.5	2570.0	846	-
■ OMX							
May	1571.00	1561.00	-11.00	1574.30	1560.00	2,251	13,342
Jun	1574.00	1561.50	-10.40	1574.35	1561.50	5,106	8,754
■ SOFFEX							
Jun	3568.0	3563.0	+6.0	3583.0	3553.7	3,796	22,459
Jul	3574.0	3565.5	-3.0	3574.0	3574.0	1	2,843

** Sat May 18: Taiwan Weighted Price 6021.18; Korea Comp Ex 926.80. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 25 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: May 21 - 2564.12 +22.14.

US INDICES

Dow Jones	May 20	May 17	May 16	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5748.82	5687.50	5635.05	5748.82 (20/5)	5032.94 (10/1)	5748.82 (20/5/96)	41.22 (8/7/32)
Home Bonds	101.65	101.62	101.49	106.88 (14/2)	101.19 (8/5)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2267.59	2265.64	2249.44	2267.59 (20/5)	1882.71 (18/1)	2267.59 (20/5/96)	12.32 (8/7/32)
Utilities	212.27	212.41	212.49	234.80 (12/2)	205.42 (7/5)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5778.74 (5729.61) Low 5657.58 (5631.61) (Theoretical♠)
Day's high 5750.30 (5698.56) Low 5671.99 (5635.79) (Actual♠)

Standard and Poors	May 20	May 17	May 16	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	673.15	668.91	664.85	673.15 (20/5)	598.48 (10/1)	673.15 (20/5/96)	4.40 (1/6/32)
Industrials♥	802.46	796.18	791.27	802.46 (20/5)	702.07 (15/1)	802.46 (20/5/96)	3.62 (21/6/32)
Financial	67.10	66.59	65.98	68.56 (5/3)	58.67 (10/1)	68.56 (5/3/96)	8.64 (1/10/74)
NYSE Comp.	361.09	358.78	356.41	361.09 (20/5)	321.41 (10/1)	361.09 (20/5/96)	4.46 (25/4/42)
Amex Mkt Val	609.36	605.21	602.73	609.36 (20/5)	529.05 (18/1)	609.36 (20/5/96)	29.31 (9/12/72)
NASDAQ Cmp	1248.11	1241.88	1239.31	1248.11 (20/5)	988.57 (15/1)	1248.11 (20/5/96)	54.87 (31/10/72)

■ RATIOS

	May 17	May 10	May 3	Year ago
Dow Jones Ind. Div. Yield	2.17	2.20	2.21	2.54
	May 15	May 8	May 1	Year ago
S & P Ind. Div. yield	1.86	1.82	1.86	2.21
S & P Ind. P/E ratio	21.98	21.28	21.60	18.77

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Nokia	7,034,100	39¼	+2⅝
Royal Dutch	6,867,800	150¾	+⅛
BP	4,766,100	107	+1¾
Unisys	4,389,700	8⅝	+⅛
Bay Network	4,289,200	32⅝	-⅞
Motorola	4,022,200	65¼	+1
AT & T	3,733,700	62¼	+1
Gen Elec	3,592,200	84½	+3⅛
Ph Morris	3,458,700	96⅛	+⅛
Tel Brasiel	3,256,200	60¼	+1¼

■ TRADING ACTIVITY

● Volume (million)

	May 20	May 17	May 16
New York SE	388.127	432.152	389.953
Amex	24.46	23.133	22.324
NASDAQ	608.259	648.488	643.287
NYSE			
Issues Traded	3,165	3,129	3,137
Rises	1,310	1,454	1,038
Falls	1,011	842	1,291
Unchanged	834	833	808
New Highs	195	184	129
New Lows	8	8	11

	Open	Latest	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Jun	675.80	676.85	+0.60	677.80	674.60	79,208	181,004
Sep	682.20	682.45	+0.45	683.35	680.40	2,758	17,445

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ Nikkei 225							
Jun	22060.0	22120.0	+90.0	22250.0	21950.0	21,651	279,484
Sep	22160.0	22170.0	+30.0	22300.0	22040.0	5,437	25,840

Open interest figures for previous day

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♠ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Tuesday, May 21, 1996

	Stocks Traded	Closing Prices	Change on day
Nagasakiya	8.8m	1040	+100
Copal	6.9m	1260	+120
Mitsubishi Hvy	6.8m	948	+17
Tokuyo City Bk	5.5m	391	+60
Sansui Elect	4.7m	305	+28
Kinki Sharyo	4.4m	897	+52
Akai Electric	4.4m	526	+80
Kobe Steel	4.3m	315	
Dai-Ichi Katei	4.3m	900	+30
Mitsubishi Chem	3.7m	532	-8

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1996. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $. (A) Owing to technical problems, some French prices are pre-close.

4 pm close May 21

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chg'ge Prev. Close
23¾	19⅛	AAR	0.48	2.1	25	499	23⅝	22⅞	23	-⅝
46⅛	36⅛	AMP	1.00	2.3	21	3418	43	42⅝	42⅞	-⅛
97¼	68	AMR			24	11787	u97¼	95¾	97	+1⅛
50½	37⅜	ASA x	1.80	4.0	29	711	45	44¼	45	+⅝
44¾	38⅛	AbbtL	0.96	2.3	18	7889	41⅝	41⅛	41⅜	-⅛
17¼	13⅜	Abitibi Pr	0.40	2.8	7	233	14⅜	14⅛	14¼	+⅛
36	27	ABM Ind	0.70	2.0	18	24	35⅜	35⅛	35⅛	-¼
17⅞	13⅞	Acpincaln			43	72	u17⅛	16¼	16⅜	-¾
50⅜	37¾	ACE Ltd	0.56	1.2	11	877	46¼	45¼	46	+¾
9⅞	9⅛	ACM Gvt In x	0.80	9.1	8	113	u9⅞	9⅝	9⅞	+⅛
7⅞	6¾	ACM GvOpp x	0.57	8.3		64	7	6⅞	6⅞	
7¼	6¼	ACM Gvt Sp x	0.66	10.4		128	6½	6⅜	6⅜	-⅛
9⅛	8¼	ACM Gvt Se x	0.90	10.4		167	8⅝	8½	8⅝	+⅛
9½	8¾	ACM Man x	0.90	10.0		330	9⅛	8⅞	9	
30¾	16½	AcmeCiv	0.52	1.7	7	19	30⅛	30	30	
13⅞	6⅛	Acme Elect			64	243	11⅞	11½	11⅝	-⅛
32½	27¼	Acordia	0.72	2.3	19	38	32	31¾	31⅞	-¼
21⅜	12	Acuson			80	701	20¼	20	20	-⅛
19½	18⅜	Adams Expr x	1.66	8.7	0	322	19¼	19⅛	19⅛	-⅛
21¼	16⅛	AdvMic			7	8328	18⅜	17⅝	17¾	-¾
11⅛	8½	Advest Grp	0.16	1.5	7	49	10⅞	10¾	10⅞	
26⅛	9⅛	Advo Inc	0.10	0.9	59	203	11⅛	10¾	10¾	-⅜
50⅜	41⅛	Aegon	1.23	2.5	15	79	49¼	48¾	49¼	-¾
6¾	3½	Aerfix			4	656	6⅜	6⅛	6¼	+⅛
78¾	66⅜	AetnaL	2.76	3.7	18	10406	74¾	72⅞	74⅛	+1⅛
33	28¾	Aflac x	0.40	1.3	13	893	31⅜	31⅛	31¼	+⅛
20⅞	17½	AGL Res	1.06	6.0	15	628	17¾	d17½	17⅝	-¼
26¾	21¼	Ahmanson x	0.88	3.4	7	5607	26¼	25¾	25⅞	-¼
59¼	50⅜	AirPrC	1.10	1.9	15	3353	58⅜	57⅜	57⅜	-½
28⅜	23½	Airbne Frt	0.30	1.1	25	78	27⅜	27¼	27¼	

Continued on next page

4 pm close May 21

NYSE PRICES

1996 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous page										
91¾	65⅞	Schlmb	1.50	1.7	31	7531	88⅛	86½	87⅞	+½
14½	9⅞	Schlt			3	2161	11⅝	11⅜	11⅜	-⅛
27⅞	18⅝	Schwab(C)	0.16	0.7	23	3834	24¼	23⅞	24	+⅛
28⅞	22¾	SchwMaud x			14	244	27⅞	27½	27⅞	+⅛
20⅞	13⅛	SciAtl	0.06	0.3	60	4139	u20⅞	19⅞	19⅞	
20⅞	17	Scotsman	0.10	0.5	12	49	u20⅞	20¼	20¼	+⅛
43½	38⅛	Scripps	0.52	1.2	25	386	43	42¾	43	+⅜
18⅞	14½	ScuddrNAsF	0.02	0.7		165	15¼	15⅛	15⅛	-⅛
12½	11	ScuddrNEuF	0.16	1.3		193	12⅜	12¼	12¼	
19⅛	16	SeaCnB	0.70	3.7	2	2100	19	19	19	-⅛
18	15⅛	SeaC1.4625	1.46	9.5		2100	15⅞	15⅜	15⅞	+⅛
67¾	44¾	S'gate			23	4716	62¾	60⅞	60⅞	-1⅝
38⅞	31¾	Seagrm	0.60	1.7	24	4089	36¼	35¼	35⅜	-⅞
24⅝	17⅛	Seagull En			16	376	24	23⅝	23⅞	-⅛
36⅛	26	Sealed Air			28	686	36	35¼	35⅞	+⅝
53¼	38¼	SearsR	0.92	1.8	14	12318	50⅜	49⅝	49⅞	
22¼	19¾	SecCapStI	1.24	5.8	27	225	21⅝	21½	21½	-⅛
13	11⅞	Seligm Sel x	0.84	6.6		135	12⅞	12¾	12¾	
23⅞	13⅝	Sensormat	0.22	1.2	16	2177	19¼	18½	19	+⅝
37	29½	SequaA	0.60	1.6	97	50	36⅞	36¾	36⅞	-⅛
42⅛	39	SequaB	0.50	1.2	110	42	u42⅛	41	42	
56	38⅞	ServCp	0.48	0.9	29	3258	55⅞	55⅝	55¾	+⅛
33½	28⅛	SrvMstr	1.02	3.1	14	826	33¼	32⅝	33	+½
6	4½	ServMerch			10	2359	5⅜	5¼	5¼	-⅛
48¼	28½	SGSThm			9	813	45¼	44⅜	44½	-1¼
15⅛	10⅝	Shaw Ind x	0.30	2.2	40	2223	13½	13	13⅜	+½
12⅞	10⅝	Shelby Wil	0.28	2.3	15	8	12⅜	12⅛	12⅜	+⅛
86⅝	76⅝	ShellTr	3.30	3.8	17	232	u86⅝	85¾	85¾	-⅝
46⅞	39	ShrW	0.70	1.5	19	882	46	45¼	46	+⅝
13⅞	7⅞	Shoneys			13	306	12⅞	12⅝	12⅝	-¼

NASDAQ NATIONAL MARKET

4 pm close May 21

AMEX PRICES

4 pm close May 21

Price data supplied by Telekurs

AMERICA

US equities steady ahead of FOMC

Wall Street

US equities hovered near to Monday's closing levels in mid-session trade as investors awaited the conclusion of the Federal Reserve's Open Market Committee meeting, *writes Lisa Bransten in New York.*

At 1 pm, the Dow Jones Industrial Average was 8.13 stronger at 5,756.95, the Standard & Poor's 500 was up 2.16 at 675.31 and the American Stock Exchange composite gained 3.16 at 612.52. The technology-rich Nasdaq composite added 3.09 at 1,251.20. NYSE volume was 230m shares.

Few on Wall Street expected the Fed to change interest rates at yesterday's FOMC meeting, but economists remained divided about the direction of interest rates through to the end of the year. Therefore, many were hopeful that the Fed would release some indication of its view of the economy at the conclusion of the meeting.

Stocks derived little direction from the bond market, which was also relatively flat.

Among individual shares, oil companies in the Dow gave up some of the strong gains made on Monday after the conclusion of the United Nations deal to allow Iraq to sell oil to raise money for humanitarian aid. Chevron retreated $1¼ to $60⅞, Exxon shed $1⅛ to $86 and Texaco receded $1⅝ to $85⅝.

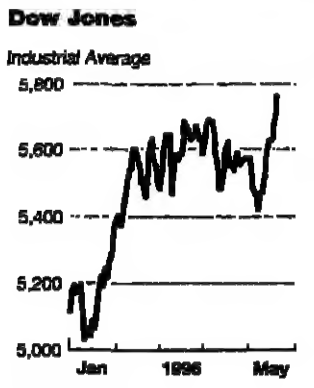
Wellpoint Health Networks, a California health maintenance organisation (HMO), soared $12¼ or 48 per cent to $38⅝ as the HMO's parent, Blue Cross of California, completed its conversion to a for-profit company. Wellpoint retains use of the Blue Cross name for marketing purposes and Blue Cross donated $3bn to two healthcare foundations in order to repay the citizens of California for tax benefits it received while it was a non-profit company.

ValuJet shares climbed $1⅝ or 14 per cent to $12⅞, regaining some of the ground lost in the days since one of the airline's DC-9s crashed in the Florida Everglades, in spite of news that one of the company's founders had sold 1.5m shares on Monday. The company said the shares were sold to satisfy margin debt.

For a second consecutive day, shares in Iomega jumped amid optimism about a two-for-one stock split that took effect yesterday. Shares in the company, which makes computer disk drives, added $8 or 15 per cent at $47⅞.

Dayton Hudson rose $3 or 3 per cent to $105 after the retailer reported stronger than expected first-quarter earnings of 49 cents a share. The mean estimate from analysts was for closer to 43 cents a share.

Dow Jones



Source: FT Extel

Canada

Toronto was firm in midday trade, having been propelled to stronger territory in early trade by Wall Street's gains on Monday. The TSE-300 composite index was 9.4 higher by noon at 5,229.90 in volume of 41.9m shares.

Analysts noted that oil and gas issues remained strong in spite of news that the United Nations and Iraq had worked out a deal to allow Baghdad to resume exporting limited amounts of oil. One dealer said that while oil prices could drop, they were still higher than a year ago.

Mexico City ahead

Stocks in Mexico City remained in good spirits as the IPC index rose 1.4 per cent at the opening, before some profit-taking emerged to take the market back down to 3,347.92 at midday for a gain of 31.71. Volume was 16m shares.

Leading gainers were Valle B, a bottling company, and Banacci B, a financial group.

SAO PAULO was weaker at midday, although investors were confident that Light, the Rio de Janeiro power distributor, would be privatised later in the session. The Bovespa index was off 401.80 at 56,155.

The Light sale has so far been marred by postponements and discussions on legal issues raised by both investors and labour unions in the last few months. Analysts expect the bourse to continue upwards but felt some profit-taking could occur. Traders also said investors might take heed of increasing unemployment and inflation rate figures and sell shares.

BUENOS AIRES was biding its time and by noon the Merval index was up 2.69 at 617.74.

S African industrials find favour

Johannesburg's industrial shares made a comeback in late trading as blue chip stocks returned to favour on futures-related trade. However, losses in the golds sector deepened as bullion disappointed and the rand remained steady.

The overall index ended 17 down at 6,653.8, industrials recorded their first gains for a week, picking up 17 at 7,740.2, and golds lost 51.8 at 1,948.3.

Analysts said that market activity, however, remained thin overall with institutions staying on the sidelines.

Anglos fell R2.50 to R279.50 and Vaal Reefs receded R5 to R435, while Richemont put on 25 cents at R61.50.

Iscor, the steel producer, rebounded 7 cents to finish at R3.46, after breaking R3.50 earlier in the day. Sasol, the fuels group, climbed R1.10 to settle at R41.60, mimicking Monday's gains by international petroleum companies.

EUROPE

Frankfurt makes running with spurt to peak

A stronger dollar contributed to FRANKFURT's gains. The Dax index finished 20.78 up at 2,570.78, having hit an all-time high of 2,571.75 during the day.

The record breaking streak continued in the *Ibis*, with the market hitting 2,572.51, before closing at 2,564.12. Turnover was DM10.5bn.

With the market in a good mood, analysts were revising year-end Dax targets, from around 2,600 to 2,700.

RWE gained DM1.05 to DM61.45, as the group reported a net profit of DM822m for the nine months to the end of March 1996. Mannesmann made up an early loss to post an Ibis gain of DM5.10 at DM538.10 on first-quarter results.

Lufthansa added DM1.70 at DM247.70 after announcing that it had narrowed its first-quarter loss to DM49m, compared with DM55m in the same period last year.

BRUSSELS was driven up 1 per cent, with the Bel-20 index making 20.37 to 1,761.39, in turnover of BFr2.9bn.

Electrabel, the electricity utility, firmed BFr30 to BFr7,180 as a number of investors moved in ahead of tomorrow's dividend payment.

PARIS confirmed that Monday's fall was a technical reaction, as the CAC-40 index picked up 9.12 to 2,129.71 and turnover improved to FFr5bn.

The oil stocks were favoured as *Elf Aquitaine made FFr7 to FFr389 and Total rose FFr5.20 to FFr357.20.*

Crédit Local shares rose FFr18.10 to FFr411.20 as the company forecast higher results for 1996, following a good first four months of the year.

LISBON climbed to an all-time high, with institutional demand seen for Portugal Telecom and Sonae, the industrial group. The BVL-30 index moved ahead 13.84 to 1,882.69 in turnover of Esc3bn.

Brokers said that demand for PT, up Esc82 to Esc3,700, after touching a record high of Esc3,715, had been driven by foreign investors ahead of the second stage of privatisation: a 21.7 per cent stake is to be sold on June 11.

Sonae has been pushed higher since the group announced restructuring measures last week. The stock touched an all-time peak of Esc3,994 before closing Esc60 up at Esc3,975.

MILAN edged down, awaiting a further batch of May inflation data from five cities after Monday's news on inflation in Milan, Turin and Trieste failed to match the most optimistic expectations. The Comit index fell 4.57 to 669.53, with investors also awaiting today's speech from Prime Minister Romano Prodi, in which he is expected to outline the new government's policies.

Montedison surrendered L5.7 to L685.4 after the Cofeleuf hedge fund said that it had 4.8 per cent of the group's shares but no agreement with other shareholders to pressure the management to break up the company.

Ansaldo Transporti forged ahead L100 to L2,258 on Monday's news that it and CS, of France, were to group their signalling activities into one company, creating the biggest manufacturer in the sector after Siemens.

ZURICH finished little changed, unable to maintain its best levels of the day, as attention focused on SBC and speculation that the bank might spin off its retail business. The SMI index turned back from 3,605.2 to close 3.3 ahead at 3,587.3.

SBC registered shares ended SFr2.25 higher at SFr229.75; after the market closed, the bank confirmed widespread expectations with news that it is to split its group activities into four divisions, including a retail sector.

MADRID hit its second successive record high. The general index added 0.99 at 363.95 and the Ibex-35 firmed 11.70 to 4,155.15. However, turnover was down to Pts38.8bn from Monday's Pta48bn. Electrical utilities led the way and Iberdrola rose Pta10 to Pta1,295.

HELSINKI finished a lively session weaker, as cyclicals slid in response to the strong markka and Raisio finally succumbed to profit-taking. The Hex index lost 3.05 to 2,017.39.

Daiwa Europe said, however, that it expected the Hex index to rise by between 5 and 8 per cent by the end of the year. Daiwa, which said that it was overweight in Finnish equities, added that it had raised its market earnings estimates for 1996 by 9 per cent following the first-quarter results for leading companies, and had also nudged up 1997 projections.

Raisio saw an end to its remarkable run, giving up FM3 to FM301. Nokia picked up another FM0.70 at FM183.50.

AMSTERDAM moved forward to another record high as major stocks were helped by the dollar. THe AEX index firmed 3.66 to 561.84.

Royal Dutch, for instance, rose Fl 2.80 to Fl 258.30, and KLM added 80 cents at Fl 61.30 as speculation re-emerged about a possible strategic link with British Airways.

STOCKHOLM was led lower by falls in Astra and Ericsson in a correction after Monday's gains. The Affärsvärlden general index was 9.0 down at 1,996.5 on profit-taking and disappointment over a smaller than expected cut by the Riksbank in the repo rate.

Astra closed SKr3 weaker at SKr314.50 on profit-taking, while Ericsson declined SKr2 to SKr147.

The forestry sector fell 1.5 per cent and SCA gave up SKr1 to SKr130.50, after dipping to SKr129, on its weaker than expected first-quarter profit.

VIENNA extended Monday's 1 per cent advance as confidence remained high. The ATX rose 0.75 per cent to 1,131.28.

Traders speculated that further gains might be seen today with interest in OMV, the oil and chemicals group, which has been suspended from trade since Monday due to the price fixing for the secondary share offering. The offering has been priced at Sch1,055 per share.

WARSAW lost nearly 2 per cent and there were fears that the market might now be about to pull back to the 11,000 level. The Wig index retreated to 12,083.2 as turnover fell 7 per cent to 132.2m zlotys.

Written and edited by Michael Morgan and John Pitt

FT-SE Actuaries Share Indices THE EUROPEAN SERIES

May 21 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1694.40	1694.05	1694.68	1695.18	1697.08	1697.07	1696.22	1696.84
FT-SE Eurotrack 200	1739.94	1737.98	1738.49	1738.75	1740.12	1742.16	1737.92	1740.29

	May 20	May 17	May 16	May 15	May 14
FT-SE Eurotrack 100	1690.84	1680.34	1682.03	1682.60	1678.81
FT-SE Eurotrack 200	1733.46	1727.37	1724.84	1729.28	1725.66

Base value 1000 (26/10/90). High/day: 100 - 1697.58; 200 - 1742.19 Low/day: 100 - 1693.61 200 - 1725.58. † Partial.

ASIA PACIFIC

Hong Kong sharply higher for second straight day

Wall Street's renewed bull run spurred HONG KONG sharply higher for a second straight day. The Hang Seng index finished 101.19 ahead at 11,088.77, off a day's high of 11,121.91, in turnover up to HK$5.1bn.

HSBC topped the most active list on talk of a covered warrants issue. The stock climbed HK$1.50 to HK$116, adding to Monday's HK$2.50 advance.

Cheung Kong picked up 50 cents to HK$64.75 and its Hutchison associate gained 40 cents at HK$49.80.

Sun Hung Kai Properties moved ahead 75 cents to HK$76.25, as did Henderson Land to HK$55.25. New World put on 70 cents at HK$35.10.

Tokyo

The overnight rise on Wall Street had little effect on investor confidence, although shares closed marginally higher on buying by overseas investors and technical traders, *writes Emiko Terazono in Tokyo.*

The Nikkei 225 average rose 112.74, or 0.5 per cent, to 22,091.74, recovering the 22,000 level for the first time in three trading days. The index moved between 21,892.58 and 23,196.04.

Although early trading remained dull due to the bearish tone carried over from Monday, demand from foreign brokers and arbitrageurs lifted prices in the afternoon.

Volume of 403m shares, against 391m, remained relatively thin as domestic institutions and foreign investors refrained from accumulating positions ahead of Friday, the peak time for corporate announcements of earnings results for the year to March.

The Topix index of all first section stocks gained 0.26 at 1,689.30 and the Nikkei 300 rose 0.26 to 312.23. Declines led advances by 604 to 436, with 186 issues unchanged.

In London the ISE/Nikkei 50 index firmed 0.21 to 1,475.56.

Speculators focused on laggards in the textile and warehouse sectors. Warehouses posted the largest gain of the day, with Mitsubishi Warehouse and Transportation up Y20 to Y1,840 and Mtsui-Soko rising Y31 to Y966. Among textiles, Toho Rayon strengthened Y26 to Y598 and Mitsubishi Rayon Y10 to Y458.

Many stocks were weaker ahead of Friday's earnings announcements. Although the institutions are expected to write off a bulk of their very heavy bad debts, some industry analysts remain bearish due to their exposure to non-bank lenders and the expected fund raising through preferred stock.

Dai-Ichi Kangyo Bank rose Y10 to Y1,960, but Bank of Tokyo Mitsubishi dipped Y20 to Y2,510 and Fuji Bank lost Y10 to Y2,340.

Investors were discouraged by the expected lifting of Iraq's oil sanctions, and profit-taking depressed oil refiners and distributors, which had gained ground during the past few trading days due to higher oil prices. Nippon Oil shed Y3 to Y705 and Cosmo Oil softened Y2 to Y678.

In Osaka, the OSE average slipped 42.79 to 23,439.36 in volume of 35.6m shares.

Roundup

TAIPEI showed some recovery after extending Monday's 4 per cent drop, although financials fell further. The weighted index lost 45.41 at 5,729.48, having rebounded from a session's low of 5,695.50. Turnover was T$46.9bn. The financial sector tumbled 3.2 per cent, with Shin Kong Life off T$4 at T$104.50.

Gains in textiles and other sectors helped to limit the overall decline, with textiles up 1.8 per cent, and Hualon T$1.30 better at T$20.50.

SINGAPORE was weak as index linked stocks were sold by a number of investment funds, said to be adopting a cautious approach to the market until they had a clearer view of where local property prices were going after measures were introduced to dampen speculation.

The Straits Times Industrial index fell 12.76 to 2,310.16.

Wing Tai Holdings, however, picked up a cent to S$3 after reports that the property group had attracted a strong positive response from buyers to news that it was selling a new project in a prime district.

KUALA LUMPUR extended its consolidation as small-sized stocks were pulled down by forced selling after continued losses since last week. The composite index gave up 9.47 to 1,146.08.

Anson Perdana rose 10 cents to M$7.65 and Seal fell 30 cents to M$7.05 on news that a consortium, in which they are members, had received a letter of intent to build a M$1.5bn highway project.

Artwright ended at M$9.70, against an offer price of M$3.90, as the stock made its market debut.

SEOUL extended early falls in weak trade on worries about the economy and slowing exports, and the composite index lost 15.19 to 919.86.

Analysts noted that the Trade Ministry had raised its forecast of the country's trade deficit for this year to $8bn, due mainly to falling prices on international markets for semiconductors, which account for about 18 per cent of exports, and the weakness of the yen.

Samsung Electronics spearheaded a decline in blue chips, falling Won5,100 to Won80,900. Posco relinquished Won900 at Won56,400.

Info-tech shares, by contrast, were in demand. LG Information and Communications added Won2,500 at Won121,500 on expectations that the company would be awarded a personal communications service licence in June.

SYDNEY was weighed down by resource stocks, which were hit by a slide in metals prices. The All Ordinaries index slipped 8.3 to 2,242.9.

WELLINGTON was easier, with a paucity of corporate news except for heavy trade in Macraes Mining. The NZSE-40 capital index settled 3.31 down at 2,087.21, with some 50 per cent of the day's NZ$64m turnover being made up of crossings in Macraes Mining.

Air NZ A shares made 9 cents to NZ$3.58 after the airline and News Corp announced on Monday a plan to split up Ansett Australia.

MANILA made a slight gain, but activity was best described as listless. The composite index rose 15.62 to 3,126.97 in volume of 14.6bn shares worth 2.87bn pesos. All sectors saw rises with the exception of mining, down 78.61, or 2.5 per cent, at 3,029.67.

BANGKOK finished marginally higher, but brokers said sentiment was fragile with investors awaiting next week's cabinet changes. The SET index gained 1.36 at 1,290.59, off a morning high of 1,294.81, in Bt3.99bn turnover.

JAKARTA suffered from a decline in Telkom, the composite index losing 0.40 at 617.29. Telkom was off Rp60 at Rp3,675 on volume of 6.1m shares after an intra-day low of Rp3,575.

BOMBAY retreated as it became clear that the ruling BJP government was unlikely to win a crucial confidence vote, due in parliament by May 31.

The BSE-30 index shed 22.34 to 3,671.85 as dealers reported an absence of demand from foreign and domestic funds.

KARACHI was weaker on position-squaring. The KSE-100 index fell 21.65, or 1.3 per cent, to 1,703.16.

China's local currency A shares, available only to domestic investors, tumbled on profit-taking after their recent strong run. **SHENZHEN's** A index dropped 8.21 per cent and **SHANGHAI's** A index was down 6 per cent.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY MAY 20 1996 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY MAY 17 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (80)	205.68	-0.8	201.66	139.27	164.11	172.19	0.0	4.25	207.38	202.86	139.80	164.55	172.26	212.18	162.68	164.48
Austria (25)	188.15	0.5	184.47	127.39	150.12	150.03	1.1	1.87	187.18	183.10	126.18	148.52	148.44	199.28	168.11	187.93
Belgium (27)	209.34	-0.2	205.25	141.74	167.03	162.85	0.3	4.09	209.78	205.21	141.42	166.45	162.30	215.81	186.06	190.40
Brazil (28)	169.97	1.6	166.65	115.09	135.62	311.34	1.6	2.06	167.30	163.65	112.78	132.74	306.59	170.25	123.97	144.87
Canada (98)	163.45	-0.3	160.25	110.67	130.41	162.59	0.0	2.34	163.88	160.31	110.47	130.03	162.59	164.22	134.14	139.40
Denmark (30)	295.73	0.5	289.94	200.23	235.95	238.29	1.0	1.88	294.35	287.93	198.42	233.55	235.84	305.17	274.11	274.74
Finland (23)	194.26	2.1	190.45	131.53	154.99	192.05	2.2	2.60	190.33	186.18	128.30	151.02	187.90	276.11	171.73	201.42
France (97)	195.48	-1.1	191.65	132.35	155.96	159.23	-0.6	3.01	197.57	193.27	133.19	156.76	160.22	198.39	167.70	180.50
Germany (60)	169.06	0.0	165.76	114.47	134.89	134.89	0.5	1.85	169.13	165.44	114.01	134.20	134.20	174.38	149.59	149.59
Hong Kong (59)	431.21	1.3	422.77	291.96	344.05	428.26	1.3	3.32	425.67	416.39	286.95	337.75	422.74	451.19	348.81	357.09
Ireland (16)	278.96	0.5	273.50	188.88	222.57	251.87	0.7	3.40	277.54	271.49	187.09	220.21	250.04	279.02	220.31	221.72
Italy (59)	84.10	-0.5	82.46	56.94	67.10	97.46	-0.2	2.25	84.53	82.69	56.98	67.07	97.62	84.53	67.22	76.26
Japan (481)	157.64	-0.2	154.55	106.73	125.77	106.73	0.3	0.71	157.91	154.46	106.45	125.29	106.45	164.68	137.75	150.17
Malaysia (107)	566.22	0.0	555.14	383.38	451.77	542.78	0.0	1.63	566.22	553.88	381.70	449.27	542.78	585.09	425.77	516.87
Mexico (18)	1291.54	0.7	1266.27	874.49	1030.48	10470.07	0.9	1.35	1282.76	1254.80	864.73	1017.81	10377.82	1313.61	791.99	1019.84
Netherland (19)	293.01	0.1	287.28	198.39	233.78	229.31	0.6	3.13	292.54	286.46	197.41	232.35	227.90	295.22	237.16	237.16
New Zealand (15)	80.16	-0.1	78.59	54.28	63.96	62.36	0.4	4.41	80.29	78.53	54.12	63.70	62.13	85.49	76.28	81.59
Norway (35)	243.86	-0.5	239.09	165.12	194.57	217.96	0.0	2.08	245.19	239.85	165.29	194.54	218.00	255.75	215.04	216.35
Singapore (44)	411.07	-0.9	403.02	278.33	327.98	266.91	-0.8	1.42	414.81	405.77	279.63	329.13	269.06	465.21	355.81	394.08
South Africa (45)	355.18	-1.1	348.22	240.48	283.38	335.56	-1.0	2.14	359.09	351.26	242.07	284.92	339.06	437.78	338.91	342.75
Spain (37)	178.19	0.5	174.71	120.65	142.18	172.67	0.8	3.21	177.32	173.46	119.54	140.70	171.28	179.85	142.33	142.33
Sweden (48)	356.08	1.1	349.11	241.10	284.11	355.61	1.3	2.27	352.20	344.52	237.42	279.45	351.18	356.08	251.05	251.05
Switzerland (38)	232.91	-1.2	228.35	157.70	185.89	182.34	-0.2	1.62	235.65	230.52	158.86	186.98	182.76	252.34	185.34	185.34
Thailand (46)	177.90	-0.5	174.41	120.45	141.94	174.72	-0.4	1.87	178.75	174.86	120.50	141.83	175.42	193.95	146.74	181.21
United Kingdom (201)	231.94	-0.5	227.40	157.04	185.06	227.40	-0.2	4.06	233.06	227.98	157.11	184.92	227.98	237.43	208.12	208.12
USA (626)	274.42	0.6	269.04	185.80	218.95	274.42	0.6	2.15	272.76	266.82	183.87	216.43	272.76	274.42	212.45	212.45
Americas (771)	250.69	0.6	245.78	169.74	200.02	210.75	0.6	2.15	249.23	243.80	168.01	197.76	209.50	250.69	195.09	195.09
Europe (715)	208.83	-0.4	204.74	141.39	166.62	185.21	0.1	3.02	209.58	205.01	141.28	166.29	185.10	211.35	181.80	181.80
Nordic (136)	302.70	0.9	296.78	204.96	241.52	265.90	1.2	2.23	299.86	293.33	202.14	237.92	262.73	302.70	242.56	242.56
Pacific Basin (832)	170.49	-0.1	167.15	115.43	136.02	117.95	0.3	1.16	170.67	166.96	115.05	135.42	117.61	177.01	148.86	159.45
Euro-Pacific (1547)	186.35	-0.2	182.70	126.18	148.68	143.44	0.2	2.03	186.78	182.71	125.91	148.20	143.18	190.57	166.51	168.67
North America (725)	287.55	0.6	282.31	181.15	213.47	266.90	0.6	2.15	266.02	260.22	179.33	211.07	265.35	267.55	207.93	207.93
Europe Ex. UK (514)	191.02	-0.3	187.29	129.34	152.41	160.06	0.2	2.46	191.59	187.41	129.15	152.02	159.69	192.67	163.53	163.53
Pacific Ex. Japan (351)	290.45	0.1	284.77	196.66	231.74	250.16	0.4	3.04	290.04	283.72	195.52	230.13	249.20	296.68	243.59	249.43
World Ex. US (1737)	187.60	-0.2	183.93	127.02	149.68	147.89	0.2	2.03	188.03	183.93	126.75	149.18	147.64	191.55	167.36	169.53
World Ex. UK (2162)	212.66	0.2	208.50	143.99	169.68	179.87	0.4	1.99	212.26	207.64	143.09	168.42	178.13	212.66	179.23	179.95
World Ex. Japan (1882)	245.97	0.2	241.15	166.54	196.25	233.86	0.4	2.49	245.43	240.08	165.44	194.73	232.86	245.97	201.25	201.25
The World Index (2363)	214.45	0.1	210.25	145.20	171.10	184.32	0.4	2.08	214.17	209.50	144.37	169.93	183.67	214.52	181.82	182.43

Latest prices were unavailable for this edition. Markets closed 20/5/96: Canada and Malaysia.